

ONE ROOF COMMUNITY HOUSING

**CONSOLIDATED FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION**

**FOR THE YEAR ENDED
DECEMBER 31, 2018**

ONE ROOF COMMUNITY HOUSING

CONSOLIDATED FINANCIAL STATEMENTS WITH SUPPLEMENTARY INFORMATION

For the Year Ended December 31, 2018
(With Comparative Totals for 2017)

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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, 2018, and the related consolidated statements of activities, 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 consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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, 2018, 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 2017 consolidated financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated June 27, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, 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 31 through 39 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 18, 2019, on our consideration of One Roof Community Housing's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of One Roof Community Housing's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering One Roof Community Housing's internal control over financial reporting and compliance.

*Mahoney Ulbrich
Christiansen Russ P.A.*

June 18, 2019

ONE ROOF COMMUNITY HOUSING

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

December 31, 2018
(With Comparative Totals for 2017)

	2018	2017
ASSETS		
Current assets:		
Cash	\$ 642,832	\$ 599,557
Cash designated for programs	812,931	939,282
Accounts and grants receivable, net	166,840	388,995
Contributions receivable	13,057	38,804
Interest receivable	14,380	15,228
Loans receivable, current portion	276,000	166,500
Prepaid expenses	43,081	43,647
Properties under development, net	7,196,268	3,630,539
Total current assets	9,165,389	5,822,552
Cash restricted for loan programs	1,324,590	892,431
Loans receivable - net, less current portion	2,757,390	2,078,968
Leasehold improvements and equipment, net	62,090	68,267
Multifamily rental property, net	1,312,593	561,651
Land held in trust	4,172,925	3,930,325
Total assets	\$ 18,794,977	\$ 13,354,194
LIABILITIES AND NET ASSETS		
Current liabilities:		
Current maturities of long-term debt	\$ 3,626,397	\$ 1,810,091
Accounts payable	827,391	240,661
Accrued payroll and related taxes	237,886	216,569
Accrued interest	36,533	45,797
Billings in excess of costs and estimated earnings	-	19,294
Provision for loss on construction contract	-	79,700
Deferred revenue	2,422,136	495,293
Committed loans	833,086	392,691
Borrower escrows	5,708	8,401
Other current liabilities	21,821	23,107
Total current liabilities	8,010,958	3,331,604
Long-term debt, less current maturities	4,125,243	4,005,428
Total liabilities	12,136,201	7,337,032
Net assets:		
Without donor restrictions		
Undesignated	402,971	886,924
Board designated - operating reserve	475,392	295,000
Board designated - land held in trust	4,172,925	3,930,325
Total without donor restrictions	5,051,288	5,112,249
With donor restrictions	1,973,632	1,758,375
Less discount on deferred loans	(366,144)	(853,462)
Total net assets with donor restrictions	1,607,488	904,913
Total net assets	6,658,776	6,017,162
Total liabilities and net assets	\$ 18,794,977	\$ 13,354,194

See accompanying notes to consolidated financial statements.

ONE ROOF COMMUNITY HOUSING

CONSOLIDATED STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2018
(With Comparative Totals for 2017)

	2018			2017
	Without donor restrictions	With donor restrictions	Total	
Revenues and support:				
Contributions - development	\$ 52,978	\$ -	\$ 52,978	\$ 176,067
Government grants and contracts - development	862,304	-	862,304	978,589
Sales of homes	2,022,908	-	2,022,908	1,861,050
Less cost of homes sold	<u>(2,443,116)</u>	<u>-</u>	<u>(2,443,116)</u>	<u>(2,875,444)</u>
Gain on sale of homes	495,074	-	495,074	140,262
Development fees - multi-family	32,742	-	32,742	407,687
Construction revenues	381,416	-	381,416	493,728
Less provision for loss on construction contracts	-	-	-	(79,700)
Less construction services expense	<u>(445,202)</u>	<u>-</u>	<u>(445,202)</u>	<u>(544,601)</u>
Construction revenues, net	(63,786)	-	(63,786)	(130,573)
Contributions - operating	165,733	5,527	171,260	155,031
Contributions - noncash	12,364	-	12,364	30
Special events	28,415	-	28,415	26,060
Government grants and contracts - operating	719,169	-	719,169	606,852
Real estate sales commissions	135,407	-	135,407	80,167
Land lease revenues	105,357	-	105,357	98,970
Multi-family rental revenue	121,337	-	121,337	134,075
Interest income - loans	105,339	-	105,339	85,653
Interest income - deferred loan accretion	-	53,526	53,526	48,671
Interest income - other	1,984	-	1,984	772
Loan fees	139,827	-	139,827	68,248
Other revenues	42,660	-	42,660	41,357
Net assets released from restriction	69,479	(69,479)	-	-
Total revenues and support	<u>2,111,101</u>	<u>(10,426)</u>	<u>2,100,675</u>	<u>1,763,262</u>
Expenses:				
Community land trust	633,577	-	633,577	402,426
Homebuyer education and counseling	128,199	-	128,199	144,189
Lending services	500,060	-	500,060	525,330
Multi-family development	402,718	-	402,718	471,537
Tenant-landlord connection	101,843	-	101,843	164,183
Total program services, less cost of homes sold	<u>1,766,397</u>	<u>-</u>	<u>1,766,397</u>	<u>1,707,665</u>
Management and general	638,811	-	638,811	377,825
Fundraising	106,389	-	106,389	94,871
Total expenses	<u>2,511,597</u>	<u>-</u>	<u>2,511,597</u>	<u>2,180,361</u>
Operating loss	(400,496)	(10,426)	(410,922)	(417,099)
Land cost capitalized	242,600	-	242,600	88,500
Grants for loan program	-	713,001	713,001	109,188
Loan program funds returned to government agency	(38,265)	-	(38,265)	(9,026)
Government grants for multi-family property in development	75,000	-	75,000	-
Contributed properties	60,200	-	60,200	79,998
Government grant - Gateway development	-	-	-	200,000
Project costs for the Gateway development	<u>-</u>	<u>-</u>	<u>-</u>	<u>(200,000)</u>
Change in net assets	(60,961)	702,575	641,614	(148,439)
Net assets, beginning of year	<u>5,112,249</u>	<u>904,913</u>	<u>6,017,162</u>	<u>6,165,601</u>
Net assets, end of year	<u>\$ 5,051,288</u>	<u>\$ 1,607,488</u>	<u>\$ 6,658,776</u>	<u>\$ 6,017,162</u>

See accompanying notes to consolidated financial statements.

ONE ROOF COMMUNITY HOUSING

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2018
(With Comparative Totals for 2017)

	2018										
	Community land trust	Homebuyer education and counseling	Lending services	Multi-family housing development	Tenant-landlord connection	Total program services	Construction services	Management and general	Fundraising	Total	2017
Salaries	\$ 178,191	\$ 77,722	\$ 189,708	\$ 179,918	\$ 65,902	\$ 691,441	\$ 374,050	\$ 428,754	\$ 56,822	\$ 1,551,067	\$ 1,516,044
Payroll taxes	12,953	5,650	13,790	13,079	4,791	50,263	49,774	31,033	4,130	135,200	141,098
Employee benefits	29,786	12,992	31,711	30,074	11,016	115,579	79,792	58,605	9,498	263,474	232,324
	220,930	96,364	235,209	223,071	81,709	857,283	503,616	518,392	70,450	1,949,741	1,889,466
Professional fees	7,774	1,601	7,443	5,056	1,357	23,231	-	14,388	1,170	38,789	62,019
Office supplies	1,251	546	1,332	1,263	463	4,855	4,003	3,551	397	12,806	12,543
Postage	3,680	1,605	3,918	3,715	1,361	14,279	-	5,817	1,173	21,269	18,262
Occupancy and utilities	6,664	2,907	7,095	6,729	2,465	25,860	10,203	14,546	2,124	52,733	41,750
Telephone and IT	13,706	5,978	14,592	13,839	5,069	53,184	2,435	22,624	4,372	82,615	76,602
Depreciation	9,356	4,081	-	9,447	3,460	26,344	6,988	17,538	2,984	53,854	53,537
Travel and training	7,428	1,637	4,267	5,986	1,388	20,706	11,663	6,053	1,203	39,625	30,834
Bad debt expense	-	-	667	-	-	667	-	-	-	667	-
Property acquisition	230,800	-	-	-	-	230,800	-	-	-	230,800	555,500
Construction costs	2,038,807	-	-	-	-	2,038,807	2,281,768	-	-	4,320,575	3,012,920
Other development costs	348,629	-	-	-	-	348,629	-	-	-	348,629	241,493
Funds returned to government agency	-	-	38,265	-	-	38,265	-	-	-	38,265	9,026
Homeowner support	39,550	8,090	2,434	-	-	50,074	-	-	-	50,074	39,684
Insurance	3,637	1,586	3,872	3,672	1,345	14,112	19,946	13,591	1,159	48,808	43,565
Interest / bank fees	15,754	208	71,745	4,828	177	92,712	-	9,175	457	102,344	87,295
Marketing	4,871	2,125	5,186	4,919	1,802	18,903	382	7,700	1,553	28,538	32,572
Membership	2,037	888	2,168	2,056	753	7,902	-	3,219	651	11,772	10,394
Board	977	426	1,041	987	361	3,792	994	1,545	312	6,643	4,981
Multifamily project operating expenses	-	-	-	116,787	-	116,787	-	-	-	116,787	142,314
Allowance for Gateway loan	-	-	-	-	-	-	-	-	-	-	200,000
Allowance for property under development - for sale	244,500	-	-	-	-	244,500	-	-	-	244,500	-
Discount on new deferred loans	-	-	121,972	-	-	121,972	-	-	-	121,972	96,546
Event expenses	-	-	-	-	-	-	-	-	18,269	18,269	7,215
Other	51,462	157	17,119	363	133	69,234	16,307	672	115	86,328	61,712
Total expenses	3,251,813	128,199	538,325	402,718	101,843	4,422,898	2,858,305	638,811	106,389	8,026,403	6,730,230
Reclassify Common Ground expenses related to One Roof projects	2,413,103	-	-	-	-	2,413,103	(2,413,103)	-	-	-	-
Eliminate construction costs paid to Common Ground by One Roof	(2,830,823)	-	-	-	-	(2,830,823)	-	-	-	(2,830,823)	(929,598)
Expenses netted against revenues or reported as nonoperating:											
Cost of homes sold	(2,443,116)	-	-	-	-	(2,443,116)	-	-	-	(2,443,116)	(2,875,444)
Construction services expense	-	-	-	-	-	-	(445,202)	-	-	(445,202)	(624,301)
Land cost capitalization	242,600	-	-	-	-	242,600	-	-	-	242,600	88,500
Project costs for the Gateway development	-	-	-	-	-	-	-	-	-	-	(200,000)
Loan program funds returned to government agency	-	-	(38,265)	-	-	(38,265)	-	-	-	(38,265)	(9,026)
Expenses reported in expense section of the statement of activities	\$ 633,577	\$ 128,199	\$ 500,060	\$ 402,718	\$ 101,843	\$ 1,766,397	\$ -	\$ 638,811	\$ 106,389	\$ 2,511,597	\$ 2,180,361
% of expense (after reclassification and elimination of Common Ground expenses) Note 2:											
2018	55%	2%	10%	8%	2%	76%	9%	12%	2%	100%	
2017	55%	2%	9%	12%	3%	81%	11%	6%	2%	100%	

See accompanying notes to consolidated financial statements.

ONE ROOF COMMUNITY HOUSING

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2018
(With Comparative Totals for 2017)

Increase (Decrease) in Cash

	2018	2017
Cash flows from operating activities:		
Change in net assets	\$ 641,614	\$ (148,439)
Adjustments to reconcile the change in net assets to net cash from operating activities:		
Depreciation	53,854	53,537
Loss on sale of equipment	-	7,123
Change in reserve for housing development losses	244,500	-
Grants for loan program	(713,001)	(109,188)
Contributed properties	(60,200)	(79,998)
Changes in discount on deferred loans receivable	68,446	47,875
Funds returned to government agency for loan program	38,265	9,026
Bad debt expense	667	-
Allowance for Gateway loan	-	200,000
Changes in operating assets and liabilities:		
Receivables	248,750	(30,254)
Prepaid expenses	566	(12,988)
Properties under development and for sale	(992,634)	(749,525)
Land held in trust	(242,600)	(88,500)
Accounts payable	58,049	(92,591)
Accrued expenses	12,053	25,056
Deferred revenue	779,369	(446,011)
Borrower escrows	(2,693)	6,243
Other liabilities	(100,280)	76,889
Net cash from operating activities	34,725	(1,331,745)
Cash flows from investing activities:		
Issuance of loans receivable	(851,005)	(954,280)
Collection of loans receivable	434,365	230,926
Multi-family properties under development	(3,007,197)	(154,090)
Purchase of leasehold improvements and equipment	(20,136)	(13,824)
Net cash from investing activities	(3,443,973)	(891,268)
Cash flows from financing activities:		
Grants for loan program	713,001	109,188
Grants for multi-family properties under development	1,147,474	46,000
Funds returned to government agency for loan program	(38,265)	(9,026)
Proceeds from issuance of debt	3,541,168	3,156,266
Repayment of debt	(1,605,047)	(749,674)
Net cash from financing activities	3,758,331	2,552,754
Net increase in cash	349,083	329,741
Cash, beginning of year	2,431,270	2,101,529
Cash, end of year	\$ 2,780,353	\$ 2,431,270
Reconciliation of cash, cash equivalents, and restricted cash to statement of financial position:		
Cash	\$ 642,832	\$ 599,557
Cash designated for programs	812,931	939,282
Cash restricted for loan programs	1,324,590	892,431
	\$ 2,780,353	\$ 2,431,270
Cash paid for interest expense	\$ 215,533	\$ 75,789
Noncash investing activities:		
Multi-family properties under development in payables	\$ 528,681	\$ -
Contributed properties	\$ 60,200	\$ 79,998

See accompanying notes to consolidated financial statements.

ONE ROOF COMMUNITY HOUSING

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2018
(With Comparative Totals for 2017)

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, 2018
(With Comparative Totals for 2017)

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, earned fees for single family and multifamily developments, loan origination fees and loan interest income.

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 (no activity in 2018); One Roof Community Lending (Neighborhood Housing Services of Duluth, Inc. (NHS)); Common Ground Deconstruction Service & Reuse Center, LLC (Common Ground); and Brewery Creek LLLP. 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. Brewery Creek LLLP is a planned tax credit deal with One Roof as the General Partner and Limited Partner as of December 31, 2018.

Adoption of New Accounting Pronouncement – The financial accounting standards board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. One Roof has adjusted the presentation of its 2018 financial statements in accordance with the ASU, and has applied the changes retrospectively to 2017. Accordingly, the unrestricted net assets class has been renamed net assets without donor restrictions, the temporarily and permanently restricted net assets classes have been merged and are now called net assets with donor restrictions, and the financial statements include a new disclosure about liquidity and availability of resources (Note 3). The amount of net assets did not change. Footnote disclosures have been expanded as required by the ASU.

(Continued)

ONE ROOF COMMUNITY HOUSING

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2018
(With Comparative Totals for 2017)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

FASB issued ASU 2016-18, *Restricted Cash* to address the diversity that exists in the classification and presentation of changes in restricted cash on the statement of cash flows. One Roof has retrospectively adopted the pronouncement and adjusted the presentation of its statement of cash flows accordingly. As a result, cash, cash designated for programs, and cash restricted for loan programs are now included in cash, cash equivalents, and restricted cash on the statement of cash flows.

Financial Statement Presentation - Revenues and support are classified based on the presence or absence of donor restrictions and are reported in the following net asset categories:

- Net assets without donor restrictions are not subject to donor-imposed restrictions and are available for programs and supporting services at the discretion of management and the board of directors.
- Net assets with donor restrictions are subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the One Roof or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

In its statement of activities, One Roof includes in its definition of operations all revenues and expenses that are an integral part of its programs and supporting activities. Nonoperating support, revenues, gains and losses includes amounts for which there are no corresponding expenses such as grants for loan programs and contributed properties. Nonoperating activities also include revenue and expenses relating to multifamily development activity.

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 estimated total costs on uncompleted contracts, provision for losses on construction contracts, allowance for loan losses, discount on deferred loans, and functional expense allocations.

(Continued)

ONE ROOF COMMUNITY HOUSING

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2018
(With Comparative Totals for 2017)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 \$652,059 related to the CLT program, \$111,142 related to the Multifamily Housing program and \$49,730 related to other programs at December 31, 2018, and \$899,862 related to the CLT program, \$5,845 related to the Multifamily Housing program and \$33,575 related to other programs at December 31, 2017.

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. At December 31, 2018 and 2017, deposits exceeded the insured limit by approximately \$1,225,000 and \$1,116,000.

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 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 \$10,000 at December 31, 2018 and 2017. 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, 2018
(With Comparative Totals for 2017)

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 based upon an interest rate comparable to the annual treasury long term rate in the year loans are originated (5% - 5.22%) and the initial term of the loan (20 to 30 years). The discount is calculated using the weighted average term of the outstanding loans which is 22.8 years in 2018 and 22.5 years in 2017. The loans are due upon the earlier of sale of the property or the maturity date of the note (20 to 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 an estimated 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 and is recorded when earned.

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.

(Continued)

ONE ROOF COMMUNITY HOUSING

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2018
(With Comparative Totals for 2017)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Properties Under Development - 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. One Roof records an allowance when costs are not expected to be recovered from combined proceeds of sales and subsidies. An allowance of \$244,500 was recorded in 2018. No allowance was recorded in 2017.

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. Management evaluates these assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

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 had 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 and Gateway Properties, LLLP (Note 6). One Roof was not the controlling general partner. Since these investments were intended to be short term and One Roof did not have significant influence over the entities, the LLC and general partnership interests were recorded at the lower of cost or fair value (\$0 as of December 31, 2017). In 2018, One Roof exited both partnerships.

(Continued)

ONE ROOF COMMUNITY HOUSING

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2018
(With Comparative Totals for 2017)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions - Contributions are recognized when the donor makes an unconditional promise to give. Contributions are recorded when received as without donor restrictions or with donor restrictions, depending on the existence and/or nature of any donor restrictions. Contributions are reported as support with donor restriction and then reclassified to net assets without donor restrictions 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 net assets without donor restrictions if the restriction expires in the reporting period in which the support is recognized.

Conditional promises are recorded as deferred revenue when received before the conditions are met.

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 2018 or 2017.

Contributed Materials - Contributed materials are recorded as contributions, when received, at their fair value. Contributed real estate valued at \$60,200, special event materials and supplies of \$10,565 and room rental of \$1,799 were recognized in 2018. Contributed real estate valued at \$79,998 and special event materials and supplies of \$30 were recognized in 2017.

Government Grants - Government grants received for property acquisition and renovation are recorded as deferred revenue until the time of sale or the date placed in service from multi-family properties. At the time of sale or the date placed in service 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 net assets with donor restrictions held in perpetuity. 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".

(Continued)

ONE ROOF COMMUNITY HOUSING

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2018
(With Comparative Totals for 2017)

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

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

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.

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.

Construction Revenues - Revenues from fixed price construction contracts are recognized on the percentage of completion method, measured on the basis of direct incurred costs to estimated total costs for each contract. This cost to cost method is used because management considers it to be the best available measure of progress on these contracts.

Estimated costs to complete long-term contracts may be adjusted as more current information becomes available, and any adjustment could be significant.

Construction services expense includes all direct material and labor costs and those indirect costs related to contract performance, such as indirect labor, supplies, tools, repairs, and depreciation costs. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes in job performance, job conditions, and estimated profitability, including those arising from contract penalty provisions, and final contract settlements may result in revisions to costs and income and are recognized in the period in which the revisions are determined. The asset, "costs and estimated earnings in excess of billings", represents revenues on uncompleted contracts recognized in excess of amounts billed. The liability, "billings in excess of costs and estimated earnings", represents billings on uncompleted contracts in excess of revenues recognized.

Inter-entity construction revenues and profits are eliminated.

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.

(Continued)

ONE ROOF COMMUNITY HOUSING

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2018
(With Comparative Totals for 2017)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 and other inter-entity expenses.

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 unrelated business income in 2018 or 2017. 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.

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.

Brewery Creek LLLP is not a taxpaying entity. All tax effects of the partnership are passed through to the partners to be reported on their separate income tax returns.

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, 2017.

(Continued)

ONE ROOF COMMUNITY HOUSING

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2018
(With Comparative Totals for 2017)

3. AVAILABILITY AND LIQUIDITY

During the year, financial monitoring is performed separately for One Roof (consisting of One Roof Community Housing and One Roof Lending) and Common Ground. One Roof and Common Ground's management teams both monitor liquidity required to meet operating needs and other commitments by weekly monitoring their cash accounts and preparing and reviewing rolling 12-week cash flow projections in 2018 and 16-week cash flow projections in 2019, and quarterly monitoring the various debt and grant covenants. Common Ground's management also regularly reviews job budgets and timelines as part of this process and One Roof's management presents a 6-month cash flow projection in 2018 and 16-week cash flow projections in 2019 to the board for review on a monthly basis. As part of One Roof and Common Ground's liquidity management, they have an unwritten policy to structure financial assets to be available as general expenditures, liabilities, and other obligations come due. In addition, One Roof and Common Ground operate with balanced budgets and anticipate collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources.

One Roof's goal is generally to maintain financial assets to meet 6 months of operating expenses in the board designated operating reserve. The board has currently estimated this need to be approximately \$475,000. As part of its liquidity plan, excess cash is invested in savings accounts.

One Roof has a \$150,000 line of credit available to meet cash flow needs for operating. Common Ground has a \$35,000 line of credit available to meet cash flow needs for Common Ground's operating. Other lines of credit are specifically available to fund housing development or to make loans to clients and are not generally available to be used to fund operating costs.

For purposes of analyzing resources available to meet general expenditures within one year of the statement of financial position date One Roof and Common Ground considers all expenditures related to the ongoing activities of its program services, as well as the conduct of services undertaken to support those activities, to be general expenditures.

One Roof does not consider expenditures related to predevelopment costs for multifamily projects, construction costs for properties under development, or expenditure for loans to be general expenditures. One Roof excludes funds restricted by outside donors and designated internally by the board and management for these purposes from resources available for general expenditures. Liquid resources for these purposes are tracked in separate cash accounts designated or restricted for these purposes. Funds already expended for the developments but not yet recorded as revenue are tracked in deferred revenue accounts until the home is sold or the multifamily development is placed in service.

(Continued)

ONE ROOF COMMUNITY HOUSING

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2018
(With Comparative Totals for 2017)

3. AVAILABILITY AND LIQUIDITY (Continued)

One Roof considers the board designated operating reserve as available to meet general expenditures as the funds are designated to help fund future cash flow needs for operations and the board would release these funds for use as needed.

At December 31, resources available for general expenditures within one year of the statement of financial position date are as follows:

	<u>2018</u>	<u>2017</u>
Financial assets at year end:		
Cash	\$ 642,832	\$ 599,557
Cash designated for programs	812,931	939,282
Accounts and grants receivable, net	166,840	388,995
Contributions receivable	13,057	38,804
Interest receivable	14,380	15,228
Total financial assets	<u>1,650,040</u>	<u>1,981,866</u>
Less amounts not available to be used within a year:		
Cash designated/restricted for CLT homes	789,213	925,276
Grants receivable for loans	39,306	26,462
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 821,521</u>	<u>\$ 1,030,128</u>

One Roof is supported by restricted contributions and government grants. Because a donor's restriction requires resources to be used in a particular manner or in a future period, One Roof must maintain sufficient resources to meet those responsibilities to its donors and grantors. Thus, financial assets may not be available for general expenditure within one year. A significant portion of restricted contributions are to be used for a revolving loan fund. These restrictions are met by the loan receivables and cash restricted for loan programs which are excluded from the calculation above.

4. CONTRIBUTIONS RECEIVABLE

Contributions receivable as of December 31, 2018 are due in 2019.

(Continued)

ONE ROOF COMMUNITY HOUSING

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2018
(With Comparative Totals for 2017)

5. LOANS RECEIVABLE

Loans receivable by portfolio consist of the following:

	2018	2017
Amortizing mortgages	\$ 2,659,893	\$ 1,889,074
Deferred loans	1,223,943	1,134,018
Due on sale loans	112,678	117,878
 Total loans receivable	 3,996,514	 3,140,970
Less discount on deferred and due on sale loans	(921,908)	(853,462)
Less allowance for loan losses	(41,216)	(42,040)
 Total loans receivable, net	 3,033,390	 2,245,468
Less current portion	(276,000)	(166,500)
 Noncurrent portion	 \$ 2,757,390	 \$ 2,078,968

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:

	2018	2017
Beginning balance	\$ 42,040	\$ 42,040
Loans charged off	(1,491)	-
Provision for losses	667	-
 Ending balance	 \$ 41,216	 \$ 42,040

(Continued)

ONE ROOF COMMUNITY HOUSING

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2018
(With Comparative Totals for 2017)

5. LOANS RECEIVABLE (Continued)

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

	2018				2017
	Amortizing mortgages	Deferred loans	Due on sale loans	Total	
Current	\$ 2,512,659	\$ -	\$ -	\$ 2,512,659	\$ 1,798,559
31 - 60 days	91,285	-	-	91,285	50,819
61 - 90 days	19,742	-	-	19,742	2,607
Over 90 days	36,207	-	-	36,207	37,089
Due on maturity	-	1,223,943	112,678	1,336,621	1,251,896
Total	\$ 2,659,893	\$ 1,223,943	\$ 112,678	\$ 3,996,514	\$ 3,140,970

Other information as of December 31, 2018:

- Management has evaluated loans individually and has determined that there are no impaired loans.
- One Roof does not have a policy for placing loans on non-accrual status.
- There were no significant changes in accounting policies used to measure the allowance for loan losses.

6. LOANS RECEIVABLE - OTHER

One Roof made a commitment to loan \$819,457 to Hillside Apartments Duluth, LLLP. At December 31, 2017, \$733,356 had been advanced. The loan was funded by contributions and grants from the Federal Home Loan Bank, NeighborWorks America, Minnesota Power, and the Local Initiatives Support Corporation (LISC). In January 2018, One Roof exited the Partnership, and the loan was assigned to the co-general partner.

At December 31, 2017, One Roof had a \$200,000 loan receivable from Gateway Properties, LLLP. The loan was funded by a grant from the City of Duluth using Community Development Block Grant (CDBG) funds. In September 2018, One Roof exited the Partnership, and the loan was assigned to the City of Duluth.

An allowance had been recorded for the full amount of the loans due to the likelihood that the loans would not be collected, so the assignment of the loans had no effect on the financial statements.

(Continued)

ONE ROOF COMMUNITY HOUSING

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2018
(With Comparative Totals for 2017)

7. **PROPERTIES UNDER DEVELOPMENT AND DEFERRED REVENUE**

Properties under development consist of the following:

	2018	2017
Houses under development and for sale –		
19 in 2018 and 9 in 2017, net reserve for losses of \$152,000 in 2018	\$ 2,383,674	\$ 979,512
Grand Marais - 7 in 2018 and 11 in 2017	1,391,900	1,048,798
Jay Street - 2 in 2018 and 4 in 2017, net reserve for losses of \$92,500 in 2018	705,477	1,339,231
 Multi-family development:		
Brewery Creek	79,550	10,417
Decker Road	163,410	129,243
Lutsen Apartments	2,409,138	47,441
Other	938	15,018
Vacant lots held for development –		
3 in 2018 and 3 in 2017	62,181	60,879
	\$ 7,196,268	\$ 3,630,539

Deferred revenue mostly consists of government grants received for property acquisition and renovation of properties under development. At the time of sale or the date placed in service the funds are recorded as grant revenue. Deferred revenue is for the following:

	2018	2017
Houses under development and for sale –		
Individual homes	\$ 573,550	\$ 116,397
Grand Marais	611,231	171,000
Jay Street	80,948	161,896
 Multi-family development:		
Brewery Creek	825,500	-
Lutsen Apartments	321,974	46,000
 Loan funds		
	8,933	-
	\$ 2,422,136	\$ 495,293

(Continued)

ONE ROOF COMMUNITY HOUSING

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2018
(With Comparative Totals for 2017)

8. LEASEHOLD IMPROVEMENTS AND EQUIPMENT

Leasehold improvements and equipment consists of the following:

	2018	2017
Equipment	\$ 164,493	\$ 217,835
Leasehold improvements	32,261	32,261
Less accumulated depreciation	(134,664)	(181,829)
	<u>\$ 62,090</u>	<u>\$ 68,267</u>

9. MULTIFAMILY RENTAL PROPERTY

Multifamily rental property consists of the following:

	2018	2017
Building – SOL House	\$ 105,312	\$ 105,312
Building – Brewery Creek	416,100	416,100
Land – Brewery Creek LLLP	778,483	-
Land – Brewery Creek	73,900	73,900
Land improvements	13,992	13,992
Equipment	2,694	2,694
Less accumulated depreciation	(77,888)	(50,347)
	<u>\$ 1,312,593</u>	<u>\$ 561,651</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 in 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.

Brewery Creek LLLP is a planned tax credit deal with One Roof as the General Partner. As of December 31, 2018, the project has not closed with permanent financing or the syndicator and One Roof is the sole member. The land for the project was purchased under the LLLP.

10. 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.

(Continued)

ONE ROOF COMMUNITY HOUSING

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2018
(With Comparative Totals for 2017)

10. LAND HELD IN TRUST (Continued)

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 300 lots at December 31, 2018 and 292 at December 31, 2017.

11. DEBT

Debt consists of the following:

	2018	2017
Greater Minnesota Housing Fund	\$ 736,027	\$ 930,297
MHFA CRV Funds	1,060,000	560,000
Local Initiatives Support Corporation (LISC)	227,442	233,356
City of Duluth HIF	218,242	218,242
Duluth HRA	32,000	46,258
U.S. Bancorp CDC	250,000	250,000
Wells Fargo CDC	-	50,000
North Shore Bank	582,907	525,449
National Bank of Commerce	377,100	374,905
Propel Nonprofits	77,794	107,033
MMCDC	1,948,989	1,720,515
Cook County/Grand Marais Joint EDA	1,126,898	-
Members Cooperative Credit Union	91,362	91,362
NeighborWorks Capital LOC	362,879	708,102
North Shore Bank LOC	50,000	-
Republic Bank LOC	575,000	-
National Bank of Commerce LOC	35,000	-
	7,751,640	5,815,519
Less current maturities	(3,626,397)	(1,810,091)
	\$ 4,125,243	\$ 4,005,428

Greater Minnesota Housing Fund (GMHF) - \$1,400,000 commitment for working capital and investment/project capital. Advances bear interest at 5%. Interest payments are due quarterly until May 10, 2020, when all outstanding principal and interest is due. One Roof has an option to extend the note for an additional two year term. The outstanding balance was \$736,028 and \$930,297 at December 31, 2018 and 2017. Secured by two Jay Street properties, and may change from time to time.

(Continued)

ONE ROOF COMMUNITY HOUSING

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2018
(With Comparative Totals for 2017)

11. DEBT (Continued)

MHFA CRV funds - Notes payable to the Minnesota Housing Finance Agency (MHFA) under the Community Revitalization Fund Program (CRV) due in August 2019 and May 2020.

- \$230,000 is for construction financing with interest at 2%, unsecured. The outstanding balance was \$230,000 at December 31, 2018 and 2017. Due in August 2019.
- \$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 \$330,000 at December 31, 2018 and 2017. Due in August 2019.
- \$350,000 is for the development of new homes with interest at 4%. The outstanding balance was \$350,000 at December 31, 2018. Due in May 2020.
- \$150,000 is for the development of new homes with interest at 4%. The outstanding balance was \$150,000 at December 31, 2018. Due in May 2020.

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, 2018 and 2017.
- \$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, 2018 and 2017.
- \$45,000 project investment for Brewery Creek due on the close of the construction financing or November 30, 2021. Secured by the property. There outstanding balance was \$30,442 at December 31, 2018.
- \$46,500 project investment for the Bergman Building redevelopment due on the close of the construction financing or August 31, 2019. The outstanding balance was \$46,500 at December 31, 2017. The loan was repaid in 2018.
- \$50,000 project investment for Decker Road development due on the close of the construction financing or June 30, 2019. Secured by the property. The outstanding balance was \$50,000 and \$39,856 at December 31, 2018 and 2017.
- \$50,000 project investment for developing a new Community Land Trust workforce home (Kolstad project) due on the close of the construction financing or October 31, 2019. Secured by the property. The outstanding balance was \$29,000 at December 31, 2018 and 2017.

(Continued)

ONE ROOF COMMUNITY HOUSING

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2018
(With Comparative Totals for 2017)

11. DEBT (Continued)

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.

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

- \$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, 2017. The project was abandoned in 2016 and the City forgave this note in 2018.
- \$32,000 note payable to the Duluth HRA with no interest. Proceeds are to be used for the acquisition of 2833 Snowy Owl predevelopment project. The outstanding balance was \$32,000 at December 31, 2018 and 2017. Payment is due the earlier of July 21, 2047, the date the property is sold, or the date the debt for the property is refinanced.

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. The note was repaid in January 2018.

North Shore Bank – One Roof has notes payable to North Shore Bank. These loans are summarized below:

- \$450,000 commitment to provide financing through August 31, 2019. 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. 6 and 2 individual loans were outstanding at December 31, 2018 and 2017, respectively. The outstanding balance was \$420,609 and \$350,615 at December 31, 2018 and 2017.

(Continued)

ONE ROOF COMMUNITY HOUSING

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2018
(With Comparative Totals for 2017)

11. DEBT (Continued)

- 2 mortgages payable for acquisition and rehabilitation of the SOL House. The outstanding balance was \$87,298 and \$99,835 at December 31, 2018 and 2017.
 - \$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.
- Mortgage of \$75,000 for the acquisition of the Decker Road property with interest at 4%. Monthly interest is due through August 10, 2019, when the total outstanding principal and interest are due. The outstanding balance was \$75,000 at December 31, 2018 and 2017.

National Bank of Commerce – One Roof has notes payable to National Bank of Commerce. These loans are summarized below:

- \$392,000 mortgage payable 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. The outstanding balance was \$362,334 and \$374,905 at December 31, 2018 and 2017.
- \$17,416 note payable for purchase of a vehicle with interest at 3.79%. Monthly principal and interest payments of \$320 are due through February 5, 2023. The outstanding balance was \$14,766 at December 31, 2018.

Propel Nonprofits - \$150,000 note payable to Propel Nonprofits, formerly known as 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 \$1,100,000 for new home construction, or acquisition and rehabilitation, and a revolving loan fund, and \$900,000 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 \$856,632 and \$820,582 are outstanding at December 31, 2018 and 2017.

Individual loans provided for home improvement loans have a term of 15 years and bear interest at 3%. Principal and accrued interest are due as documented in each individual loan. Interest only payments are due for the first 18 months of each agreement. Monthly principal and interest payments are then due until the maturity date of the individual loan.

(Continued)

ONE ROOF COMMUNITY HOUSING

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2018
(With Comparative Totals for 2017)

11. **DEBT (Continued)**

The loans are secured by the related loans made by One Roof. Individual loans of \$1,092,357 and \$899,933 are outstanding at December 31, 2018 and 2017.

Cook County/Grand Marais Joint Economic Development Authority - \$1,620,000 bond payable to Cook County/Grand Marais Joint Economic Development Authority for the Lutsen Apartments project. Interest payments are due beginning February 1, 2019. Principal payments are due beginning February 1, 2022 through maturity at February 1, 2039.

Members Cooperative Credit Union - \$100,000 revolving line of credit with interest at 4%. Monthly interest payments are due through July 26, 2027, when the principal and remaining unpaid interest are due in full.

NeighborWorks Capital LOC - \$2,000,000 revolving line of credit to be used to fund the housing development of up to 7 homes at any one time with interest at 5.5% maturing December 1, 2019. Secured by the related development properties and any rents or profits made on the properties.

Ordean Foundation LOC - \$150,000 revolving line of credit with North Shore Bank with interest at 5.25% maturing June 30, 2019. Guaranteed by Ordean Foundation.

Republic Bank LOC - \$1,000,000 unsecured revolving line of credit with interest at a variable rate based on the prime rate less 1.0%. The line of credit matures November 5, 2019.

National Bank of Commerce LOC - \$35,000 unsecured revolving line of credit to Common Ground with interest at a variable rate based on the prime rate plus 1.0% with a 5% floor maturing August 5, 2019.

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 3.5% with a 4% floor and 10% ceiling, maturing November 9, 2019. There were no advances at December 31, 2018.

Future maturities of debt are as follows:

2019	\$	3,626,397
2020		1,971,931
2021		921,937
2022		115,080
2023		114,140
Thereafter		1,002,155
		\$ 7,751,640

(Continued)

ONE ROOF COMMUNITY HOUSING

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2018
(With Comparative Totals for 2017)

11. **DEBT (Continued)**

Interest expense was \$167,857 in 2018 and \$114,103 in 2017, of which \$145,071 and \$97,732 was included in the cost of homes sold.

12. **LEASE COMMITMENTS**

One Roof leases office space and office equipment under operating lease agreements. The office lease term expires December 31, 2019. Rent expense was \$25,199 in 2018 and \$19,000 in 2017. Future minimum lease payments are:

2019	\$	28,103
2020		2,148
2021		179
		179
	\$	30,430

13. **NET ASSETS**

Net assets with donor restrictions are as follows:

	2018	2017
Restricted for Loans in perpetuity		
NeighborWorks America (NW) fund	\$ 822,262	\$ 1,246,088
CDBG funds	583,676	466,107
CDFI funds	557,167	-
Homeowner relief loan fund	5,000	5,000
Subject to the Passage of Time	5,527	13,804
Expendable for specified purposes		
Lending consultant or new employee	-	25,000
Other	-	2,376
	\$ 1,973,632	\$ 1,758,375

The net assets with donor restrictions are offset by a discount on deferred loans of \$366,144 and \$853,462 at December 31, 2018 and 2017, respectively.

Net assets restricted for loans 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. Net assets restricted for loans would be returned to government agencies and funders if the programs were to terminate operations.

(Continued)

ONE ROOF COMMUNITY HOUSING

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2018
(With Comparative Totals for 2017)

13. NET ASSETS (Continued)

The Board and management have designated a portion of net assets for an operating reserve, for land held in trust and for multi-family property development.

The land held in trust balance, matches the value of the land held in trust asset.

The operating reserve is established at a balance approved by the board on an annual basis and is available to help fund future cash flow needs upon approval of the board.

14. 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 \$79,897 in 2018 and \$74,417 in 2017.

15. COSTS AND ESTIMATED EARNINGS ON UNCOMPLETED CONTRACTS

The following is a summary of contracts in progress at December 31:

	2018	2017
Costs incurred on uncompleted contracts	\$ -	\$ 390,293
Estimated earnings (loss) recognized	-	(76,675)
	-	313,618
Less: billings to date	-	(332,912)
Billings in excess of costs and estimated earnings	\$ -	\$ (19,294)

Common Ground Construction expected an estimated loss of \$155,000 on a single private job in progress at December 31, 2017. The total bid for this private job was \$638,000, and the estimated total cost of the project is \$793,000. A provision for future losses on this contract of \$79,700 was reported as of December 31, 2017. Several factors contributed to this loss, beginning with a bid that was not robust enough to match the scope of work, inexperienced project management, inconsistencies within the project drawings, staff turnover, difficulty finding subcontractors due to non-traditional architectural details, and weather adversity throughout the course of the project. Significant changes have been made and new policies have been implemented to prevent a similar situation from recurring in the future. The actual total cost of the project was \$ 796,000.

(Continued)

ONE ROOF COMMUNITY HOUSING

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2018
(With Comparative Totals for 2017)

16. 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% (23%, 13%, 16%, 28%) of government grants from four agencies during 2018 and 75% (31%, 21%, 23%) of government grants from three agencies during 2017.

One Roof received 29% (16%, 13%) of contributions from two contributors during 2018 and 42% (29%, 13%) of contributions from two contributors during 2017.

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, 2018, and One Roof is still responsible for \$133,998 of the loans. \$5,744 was released from the 10% hold back in 2017 when a position of the loans met the 36 month requirement.

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 2018 or 2017.

One Roof closed on a project in 2018 to construct 16 housing units (four buildings of four units each) in Lutsen, Minnesota. When the project is placed in service in 2019, One Roof will be required to fund various reserves, including a debt service reserve, replacement reserve, and an operating reserve.

(Continued)

ONE ROOF COMMUNITY HOUSING

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2018
(With Comparative Totals for 2017)

17. **TRANSACTIONS WITH AFFILIATES**

One Roof and Center City Housing Corp. (Center City), an unrelated Minnesota nonprofit corporation, were members of the managing general partners (the LLCs) of Hillside Apartments Duluth, LLLP (Hillside) and Gateway Properties, LLLP (Gateway). One Roof transferred its interests in both Hillside and Gateway to Center City in 2018.

One Roof has a development fee agreement with Gateway and Center City which states that One Roof will receive 50% of the developer fee of \$1,412,000 for services performed in the development of the apartments. One Roof recorded development fee revenue of \$32,742 in 2018 and \$407,687 in 2017. At December 31, 2018 all of this fee had been paid.

18. **SUBSEQUENT EVENTS**

As of April 12, 2019, three of the four Lutsen buildings have been completed and placed in service.

Management has evaluated subsequent events through June 18, 2019, 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, 2018

	One Roof	One Roof Lending	Common Ground	Brewery Creek LLLP	Eliminations	Total
ASSETS						
Current assets:						
Cash	\$ 548,551	\$ 33,226	\$ 61,055	\$ -	\$ -	\$ 642,832
Cash designated for programs	821,618	-	-	-	(8,687)	812,931
Accounts and grants receivable, net	122,388	44,302	150	-	-	166,840
Contributions receivable	13,057	-	-	-	-	13,057
Due from other division	1,036,551	1,453,625	553,211	-	(3,043,387)	-
Interest receivable	8,892	53,292	-	-	(47,804)	14,380
Loans receivable, current portion	-	276,000	-	-	-	276,000
Prepaid expenses	36,518	1,240	5,323	-	-	43,081
Properties under development, net	7,324,254	-	-	-	(127,986)	7,196,268
Total current assets	<u>9,911,829</u>	<u>1,861,685</u>	<u>619,739</u>	<u>-</u>	<u>(3,227,864)</u>	<u>9,165,389</u>
Cash restricted for loan programs	-	1,324,590	-	-	-	1,324,590
Investment in Common Ground	98,780	-	-	-	(98,780)	-
Loans receivable - net, less current portion	-	2,757,390	-	-	-	2,757,390
Leasehold improvements and equipment, net	41,148	-	20,942	-	-	62,090
Multifamily rental property, net	534,110	-	-	778,483	-	1,312,593
Land held in trust	4,172,925	-	-	-	-	4,172,925
Total assets	<u>\$ 14,758,792</u>	<u>\$ 5,943,665</u>	<u>\$ 640,681</u>	<u>\$ 778,483</u>	<u>\$ (3,326,644)</u>	<u>\$ 18,794,977</u>
LIABILITIES AND NET ASSETS						
Current liabilities:						
Current maturities of long-term debt	\$ 1,989,310	\$ 1,598,737	\$ 38,350	\$ -	\$ -	\$ 3,626,397
Accounts payable	384,896	1,614	550,319	-	(109,438)	827,391
Accrued payroll and related taxes	192,708	-	45,178	-	-	237,886
Accrued interest	38,790	36,533	-	-	(38,790)	36,533
Deferred revenue	2,413,203	8,933	-	-	-	2,422,136
Committed loans	-	833,086	-	-	-	833,086
Borrower escrows	-	5,708	-	-	-	5,708
Other current liabilities	-	6,737	15,084	-	-	21,821
Due to other division	1,991,242	-	182,115	778,483	(2,951,840)	-
Total current liabilities	<u>7,010,149</u>	<u>2,491,348</u>	<u>831,046</u>	<u>778,483</u>	<u>(3,100,068)</u>	<u>8,010,958</u>
Long-term debt, less current maturities	<u>2,783,971</u>	<u>1,329,856</u>	<u>11,416</u>	<u>-</u>	<u>-</u>	<u>4,125,243</u>
Total liabilities	<u>9,794,120</u>	<u>3,821,204</u>	<u>842,462</u>	<u>778,483</u>	<u>(3,100,068)</u>	<u>12,136,201</u>
Net assets:						
Without donor restrictions:						
Undesignated	166,820	664,508	(201,781)	-	(226,576)	402,971
Board designated - operating reserve	475,392	-	-	-	-	475,392
Board designated - land held in trust	4,172,925	-	-	-	-	4,172,925
Total without donor restrictions	<u>4,815,137</u>	<u>664,508</u>	<u>(201,781)</u>	<u>-</u>	<u>(226,576)</u>	<u>5,051,288</u>
With donor restrictions	149,535	1,824,097	-	-	-	1,973,632
Less discount on deferred loans	-	(366,144)	-	-	-	(366,144)
Total net assets with donor restrictions	<u>149,535</u>	<u>1,457,953</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,607,488</u>
Total net assets	<u>4,964,672</u>	<u>2,122,461</u>	<u>(201,781)</u>	<u>-</u>	<u>(226,576)</u>	<u>6,658,776</u>
Total liabilities and net assets	<u>\$ 14,758,792</u>	<u>\$ 5,943,665</u>	<u>\$ 640,681</u>	<u>\$ 778,483</u>	<u>\$ (3,326,644)</u>	<u>\$ 18,794,977</u>

See independent auditor's report.

ONE ROOF COMMUNITY HOUSING

CONSOLIDATING STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2018

	One Roof	One Roof Lending	Common Ground	Eliminations	Total
Revenues and support:					
Contributions - development	\$ 52,978	\$ -	\$ -	\$ -	\$ 52,978
Government grants and contracts - development	862,304	-	-	-	862,304
Sales of homes	2,022,908	-	-	-	2,022,908
Less cost of homes sold	(2,860,836)	-	-	417,720	(2,443,116)
Gain on sale of homes	77,354	-	-	417,720	495,074
Development fees - multi-family	32,742	-	-	-	32,742
Construction revenues	-	-	3,112,882	(2,731,466)	381,416
Less construction services expense	-	-	(2,858,305)	2,413,103	(445,202)
Construction revenues, net	-	-	254,577	(318,363)	(63,786)
Contributions - operating	159,976	11,284	-	-	171,260
Contributions - noncash	12,364	-	-	-	12,364
Special events	28,415	-	-	-	28,415
Government grants and contracts - operating	418,694	300,475	-	-	719,169
Real estate sales commissions	135,407	-	-	-	135,407
Land lease revenues	105,357	-	-	-	105,357
Multi-family rental revenue	121,337	-	-	-	121,337
Interest income - loans	5,252	133,223	-	(33,136)	105,339
Interest income - deferred loan accretion	-	53,526	-	-	53,526
Interest income - other	1,734	250	-	-	1,984
Loan fees	-	139,827	-	-	139,827
Other revenues	64,029	3,665	3,138	(28,172)	42,660
Total revenues and support	<u>1,162,661</u>	<u>642,250</u>	<u>257,715</u>	<u>38,049</u>	<u>2,100,675</u>
Expenses:					
Program services	1,266,337	500,060	-	-	1,766,397
Management and general	366,614	75,993	201,822	(5,618)	638,811
Fundraising	106,389	-	-	-	106,389
Total program services, less cost of homes sold	<u>1,739,340</u>	<u>576,053</u>	<u>201,822</u>	<u>(5,618)</u>	<u>2,511,597</u>
Operating income (loss)	(576,679)	66,197	55,893	43,667	(410,922)
Land cost capitalized	242,600	-	-	-	242,600
Grants for loan program	-	713,001	-	-	713,001
Loan program funds returned to government agency	-	(38,265)	-	-	(38,265)
Government grants for multi-family property in development	75,000	-	-	-	75,000
Contributed properties	60,200	-	-	-	60,200
Change in net assets	(198,879)	740,933	55,893	43,667	641,614
Net assets, beginning of year	<u>5,163,551</u>	<u>1,381,528</u>	<u>(257,674)</u>	<u>(270,243)</u>	<u>6,017,162</u>
Net assets, end of year	<u>\$ 4,964,672</u>	<u>\$ 2,122,461</u>	<u>\$ (201,781)</u>	<u>\$ (226,576)</u>	<u>\$ 6,658,776</u>

See independent auditor's report.

ONE ROOF COMMUNITY HOUSING

STATEMENTS OF FUNCTIONAL EXPENSES BY ENTITY

For the Year Ended December 31, 2018
(With Comparative Totals for 2017)

	One Roof and One Roof Lending					Common Ground			
	2018					2018			
	Program services	Management and general	Fundraising	Total expenses	2017	Program services	Management and general	Total expenses	2017
Salaries	\$ 691,441	\$ 281,679	\$ 56,822	\$ 1,029,942	\$ 1,010,723	\$ 374,050	\$ 147,075	\$ 521,125	\$ 505,321
Payroll taxes	50,263	20,476	4,130	74,869	82,946	49,774	10,557	60,331	58,152
Employee benefits	115,579	47,084	9,498	172,161	155,411	79,792	11,521	91,313	76,913
Total salary	857,283	349,239	70,450	1,276,972	1,249,080	503,616	169,153	672,769	640,386
Professional fees	23,231	6,742	1,170	31,143	49,129	-	7,646	7,646	12,890
Office supplies	4,855	1,977	397	7,229	8,021	4,003	1,574	5,577	4,522
Postage	14,279	5,817	1,173	21,269	18,262	-	-	-	-
Occupancy and utilities	25,860	10,534	2,124	38,518	29,587	10,203	4,012	14,215	12,163
Telephone and IT	53,184	21,667	4,372	79,223	72,621	2,435	957	3,392	3,981
Depreciation	26,344	14,790	2,984	44,118	46,776	6,988	2,748	9,736	6,761
Travel and training	20,706	5,932	1,203	27,841	23,070	11,663	121	11,784	7,764
Bad debt expense	667	-	-	667	-	-	-	-	-
Property acquisition	230,800	-	-	230,800	555,500	-	-	-	-
Construction costs	2,038,807	-	-	2,038,807	2,047,495	-	-	-	-
Other development costs	348,629	-	-	348,629	241,493	-	-	-	-
Direct materials	-	-	-	-	-	252,070	-	252,070	320,939
Subcontractor costs	-	-	-	-	-	1,962,238	-	1,962,238	504,774
Other construction costs	-	-	-	-	-	67,460	-	67,460	60,012
Provision for loss	-	-	-	-	-	-	-	-	79,700
Funds returned to government agency	38,265	-	-	38,265	9,026	-	-	-	-
Homeowner support	50,074	-	-	50,074	39,684	-	-	-	-
Insurance	14,112	5,749	1,159	21,020	17,029	19,946	7,842	27,788	26,536
Interest / bank fees	92,712	7,024	457	100,193	87,295	-	7,769	7,769	6,838
Marketing	18,903	7,700	1,553	28,156	32,281	382	-	382	291
Membership	7,902	3,219	651	11,772	10,394	-	-	-	-
Board	3,792	1,545	312	5,649	3,892	994	-	994	1,089
Multifamily project operating expenses	116,787	-	-	116,787	142,314	-	-	-	-
Allowance for Gateway loan	-	-	-	-	200,000	-	-	-	-
Allowance for property under development	244,500	-	-	244,500	-	-	-	-	-
Discount on new deferred loans	121,972	-	-	121,972	96,546	-	-	-	-
Event expenses	-	-	18,269	18,269	7,215	-	-	-	-
Other	69,234	672	115	70,021	80,560	16,307	-	16,307	11,152
Total expenses	4,422,898	442,607	106,389	4,971,894	5,067,270	2,858,305	201,822	3,060,127	1,699,798
Expenses netted against revenues or reported as nonoperating:									
Cost of homes sold	(2,860,836)	-	-	(2,860,836)	(2,932,988)	-	-	-	-
Construction services expense	-	-	-	-	-	(445,202)	-	(445,202)	(624,301)
Land cost capitalization	242,600	-	-	242,600	88,500	-	-	-	-
Project costs for the Gateway development	-	-	-	-	(200,000)	-	-	-	-
Loan program funds returned to government agency	(38,265)	-	-	(38,265)	(9,026)	-	-	-	-
	<u>\$ 1,766,397</u>	<u>\$ 442,607</u>	<u>\$ 106,389</u>	<u>\$ 2,315,393</u>	<u>\$ 2,013,756</u>	<u>\$ 2,413,103</u>	<u>\$ 201,822</u>	<u>\$ 2,614,925</u>	<u>\$ 1,075,497</u>

See independent auditor's report.

ONE ROOF COMMUNITY HOUSING

COMPARATIVE STATEMENTS OF FINANCIAL POSITION - COMMON GROUND

December 31, 2018 and 2017

	2018	2017
ASSETS		
Current assets:		
Cash	\$ 61,055	\$ 65,394
Accounts receivable, net	150	38,313
Due from One Roof	553,211	46,738
Prepaid expenses	5,323	5,323
Total current assets	619,739	155,768
Equipment, net	20,942	10,542
Total assets	\$ 640,681	\$ 166,310
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 550,319	\$ 131,182
Accrued payroll and related taxes	45,178	32,038
Billings in excess of costs and estimated earnings	-	25,479
Provision for loss on construction contract	-	79,700
Current maturities	38,350	-
Other current liabilities	15,084	-
Due to One Roof	182,115	155,585
Total current liabilities	831,046	423,984
Long-term debt, less current maturities	11,416	-
Total liabilities	842,462	423,984
Net assets without donor restrictions	(201,781)	(257,674)
Total liabilities and net assets	\$ 640,681	\$ 166,310

See independent auditor's report.

ONE ROOF COMMUNITY HOUSING

COMPARATIVE STATEMENTS OF ACTIVITIES - COMMON GROUND

For the Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Revenues and support:		
Contributions - operating	\$ -	\$ 30,000
Construction revenues	3,112,882	1,503,558
Other revenues	<u>3,138</u>	<u>5,414</u>
Total revenues and support	<u>3,116,020</u>	<u>1,538,972</u>
Expenses:		
Construction services	2,858,305	1,496,355
Management and general	<u>201,822</u>	<u>203,443</u>
Total expenses	<u>3,060,127</u>	<u>1,699,798</u>
Change in net assets	55,893	(160,826)
Net assets, beginning of year	<u>(257,674)</u>	<u>(96,848)</u>
Net assets, end of year	<u>\$ (201,781)</u>	<u>\$ (257,674)</u>

See independent auditor's report.

ONE ROOF COMMUNITY HOUSING

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

December 31, 2018
(With Comparative Totals for 2017)

	2018	2017
ASSETS		
Current assets:		
Cash	\$ 33,226	\$ 21,592
Accounts receivable	44,302	26,462
Interest receivable	53,292	42,653
Loans receivable, current portion	276,000	166,500
Other current assets	72,711	820,582
Prepaid expenses	1,240	-
Total current assets	480,771	1,077,789
Cash restricted for loan programs	1,324,590	892,431
Loans receivable - net, less current portion	4,138,304	2,078,968
Total assets	\$ 5,943,665	\$ 4,049,188
LIABILITIES AND NET ASSETS		
Liabilities:		
Current maturities of long-term debt	\$ 1,598,737	\$ 300,000
Accounts payable	1,614	9,655
Accrued interest	36,533	27,631
Committed loans	833,086	392,691
Borrower escrows	5,708	8,401
Other current liabilities	15,670	23,107
Due to other division	-	31,056
Total current liabilities	2,491,348	792,541
Long-term debt, less current maturities	1,329,856	1,875,119
Total liabilities	3,821,204	2,667,660
Net assets:		
Without donor restrictions	664,508	686,803
With donor restrictions	1,824,097	1,548,187
Less discount on deferred loans	(366,144)	(853,462)
Net with donor restrictions	1,457,953	694,725
Total net assets	2,122,461	1,381,528
Total liabilities and net assets	\$ 5,943,665	\$ 4,049,188

See independent auditor's report.

ONE ROOF COMMUNITY HOUSING

COMPARATIVE STATEMENTS OF ACTIVITIES - NEIGHBORHOOD HOUSING SERVICES OF DULUTH, INC. DBA ONE ROOF COMMUNITY LENDING

For the Year Ended December 31, 2018
(With Comparative Totals for 2017)

	2018			2017
	Without donor restrictions	With donor restrictions	Total	
Revenues and support:				
Contributions - operating	\$ 11,284	\$ -	\$ 11,284	\$ 25,000
Government grants and contracts - operating	300,475	-	300,475	294,686
Interest income - loans	133,223	-	133,223	118,732
Interest income - deferred loan accretion	-	53,526	53,526	48,671
Interest income - other	250	-	250	111
Loan fees	139,827	-	139,827	68,248
Other revenues	3,665	-	3,665	-
Net assets released from restriction	3,299	(3,299)	-	-
Total revenues and support	<u>592,023</u>	<u>50,227</u>	<u>642,250</u>	<u>555,448</u>
Expenses:				
Salaries, payroll taxes and benefits	282,295	-	282,295	282,976
Office and occupancy	45,429	-	45,429	40,950
Professional and consulting fees	7,724	-	7,724	16,996
Interest and bank fees	72,201	-	72,201	57,992
Advertising and marketing	12,393	-	12,393	7,512
Bad debt expense	667	-	667	-
Discount on new deferred loans	121,972	-	121,972	96,546
Other expenses	33,372	-	33,372	22,358
Total expenses	<u>576,053</u>	<u>-</u>	<u>576,053</u>	<u>525,330</u>
Operating income (loss)	15,970	50,227	66,197	30,118
Grants for loan program	-	713,001	713,001	109,188
Loan program funds returned to government agency	(38,265)	-	(38,265)	(9,026)
Transfer to One Roof	-	-	-	(24,009)
Change in net assets	(22,295)	763,228	740,933	106,271
Net assets, beginning of year	<u>686,803</u>	<u>694,725</u>	<u>1,381,528</u>	<u>1,275,257</u>
Net assets, end of year	<u>\$ 664,508</u>	<u>\$ 1,457,953</u>	<u>\$ 2,122,461</u>	<u>\$ 1,381,528</u>

See independent auditor's report.

ONE ROOF COMMUNITY HOUSING

STATEMENT OF FINANCIAL POSITION - NEIGHBORWORKS FUNDS WITH DONOR RESTRICTIONS

December 31, 2018

ASSETS

Current assets:	
Cash designated for programs	\$ 72,008
Loans receivable, current portion	<u>60,000</u>
Total current assets	132,008
Cash restricted for loan programs	139,258
Loans receivable, less current portion	534,203
Allowance for loan losses	(5,128)
Other assets	<u>17,000</u>
Total assets	<u>\$ 817,341</u>

LIABILITIES AND NET ASSETS

Current liabilities:	
Borrower escrows and other liabilities	<u>1,678</u>
Total liabilities	<u>1,678</u>
Net assets -	
With donor restrictions	822,262
Less discount on deferred loans	<u>(6,599)</u>
Total net assets	<u>815,663</u>
Total liabilities and net assets	<u>\$ 817,341</u>

See independent auditor's report.

ONE ROOF COMMUNITY HOUSING

STATEMENT OF ACTIVITIES - NEIGHBORWORKS FUNDS WITH DONOR RESTRICTIONS

For the Year Ended December 31, 2018

Revenue:	
Interest income - deferred loan accretion	<u>32,651</u>
Total revenue and support	<u>32,651</u>
Change in net assets before transfers to operations	32,651
Approved transfers to operations:	
CFRAH CLT homes	(50,000)
Lending capital	(373,826)
Lending capital discount	<u>556,466</u>
Change in net assets	165,291
Net assets:	
Beginning of year	<u>650,372</u>
End of year	<u><u>\$ 815,663</u></u>

See independent auditor's report.