

**COMMONBOND COMMUNITIES**

**CONSOLIDATED FINANCIAL STATEMENTS  
WITH SUPPLEMENTARY INFORMATION**

**FOR THE YEAR ENDED DECEMBER 31, 2016**

## COMMONBOND COMMUNITIES

### CONSOLIDATED FINANCIAL STATEMENTS WITH SUPPLEMENTARY INFORMATION

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

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
CommonBond Communities  
Saint Paul, Minnesota

### **Report on the Financial Statements**

We have audited the accompanying consolidated financial statements of CommonBond Communities (a nonprofit organization) and affiliates, which comprise the consolidated statement of financial position as of December 31, 2016, and the related consolidated statements of activities, 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 consolidated 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 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 CommonBond Communities and affiliates 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 CommonBond Communities and affiliates' 2015 consolidated financial statements and we expressed an unmodified opinion on those audited financial statements in our report dated May 5, 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 consolidating information shown on pages 35 through 38 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and changes in net assets of the individual entities, and it is not a required part of the consolidated financial statements. The supplementary information on page 39 is presented for purposes of additional analysis and is also not a required part of the consolidated financial statements. The supplementary 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 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 supplementary 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 May 11, 2017 on our consideration of CommonBond Communities and affiliates' internal control over financial reporting and on our tests of their compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering CommonBond Communities and affiliates' internal control over financial reporting and compliance.

*Mahoney Ulbrich  
Christiansen Russ P.A.*

Saint Paul, Minnesota  
May 11, 2017

**COMMONBOND COMMUNITIES**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**DECEMBER 31, 2016**  
**(With Comparative Totals for 2015)**

	2016	2015
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and Cash Equivalents	\$ 13,642,943	\$ 14,770,362
Temporarily Restricted Cash	12,431,030	12,762,499
Certificates of Deposit	4,999,715	-
Accounts Receivable, Net	2,365,689	2,086,596
Accrued Developer Fee Receivable	765	6,800
Contributions Receivable	443,825	429,034
Prepaid Expenses	621,839	330,084
Total Current Assets	34,505,806	30,385,375
 <b>PROPERTY AND EQUIPMENT:</b>		
Property and Equipment, Net	464,915,945	375,293,380
 <b>OTHER ASSETS:</b>		
Contributions Receivable - Long-Term	4,989	9,967
Notes Receivable - Long-Term	420,000	420,000
Restricted Escrows and Reserves	65,677,709	37,143,879
Deferred Charges, Net	1,039,262	895,608
Investments in Partnerships and LLCs	27,232	12,684
Investment - HPIEx	177,632	177,632
Investments Held for Deferred Compensation Obligation	82,343	74,697
Investments Held for Endowment:		
Restricted by Donors	7,476,300	7,162,482
Accumulated Earnings	1,915,899	1,704,447
Total Other Assets	76,821,366	47,601,396
Total Assets	\$ 576,243,117	\$ 453,280,151

See Accompanying Notes to Consolidated Financial Statements.

**COMMONBOND COMMUNITIES**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**DECEMBER 31, 2016**  
**(With Comparative Totals for 2015)**

	2016	2015
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES:</b>		
Current Portion of Long-Term Debt	\$ 3,232,888	\$ 3,163,405
Current Construction Notes	-	5,888,814
Lines of Credit	250,000	250,000
Construction Payable	6,702,032	4,137,982
Accounts Payable	2,486,287	2,416,252
Accrued Expenses	9,927,291	7,054,098
Accrued Interest	1,319,913	983,850
Total Current Liabilities	23,918,411	23,894,401
<b>LONG-TERM LIABILITIES:</b>		
Long-Term Debt, net	252,314,851	186,841,152
Long-Term Construction Notes, net	47,363,502	6,150,161
Accrued Interest	6,133,375	8,304,447
Interest Rate Swaps	396,891	472,585
Deferred Compensation Obligation	82,343	74,697
Due to Partners	536,268	543,393
Other Liabilities	297,036	296,966
Total Long-Term Liabilities	307,124,266	202,683,401
Total Liabilities	331,042,677	226,577,802
<b>NET ASSETS:</b>		
Unrestricted:		
Undesignated Operating Fund	22,817,902	24,037,407
Undesignated Housing Communities	2,774,940	(6,959,351)
Non-Controlling Interests	109,165,390	99,328,795
Total Unrestricted Net Assets	134,758,232	116,406,851
Temporarily Restricted	101,541,419	101,878,121
Permanently Restricted	8,900,789	8,417,377
Total Net Assets	245,200,440	226,702,349
Total Liabilities and Net Assets	\$ 576,243,117	\$ 453,280,151

See Accompanying Notes to Consolidated Financial Statements.

**COMMONBOND COMMUNITIES**  
**CONSOLIDATED STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**  
**(With Comparative Totals for 2015)**

	2016			Total	2015
	Unrestricted	Temporarily Restricted	Permanently Restricted		
<b>REVENUES FROM OPERATIONS:</b>					
Contributions	\$ 1,009,273	\$ 1,821,946	\$ 526,072	\$ 3,357,291	\$ 3,165,074
In-Kind Contributions	149,296	-	-	149,296	168,064
Released from Restrictions	3,255,716	(2,939,716)	(316,000)	-	-
Capital Campaign Transfer	-	(273,340)	273,340	-	-
Total Contributions	<u>4,414,285</u>	<u>(1,391,110)</u>	<u>483,412</u>	<u>3,506,587</u>	<u>3,333,138</u>
Government Grants - Operating	394,340	-	-	394,340	533,021
Government Grants - Construction	2,209,999	480,000	-	2,689,999	6,435,934
Total Government Grants	<u>2,604,339</u>	<u>480,000</u>	<u>-</u>	<u>3,084,339</u>	<u>6,968,955</u>
Fees for Services:					
Property Management	135,504	-	-	135,504	321,979
Housing Development	-	-	-	-	20,796
Advantage Services	392,600	-	-	392,600	251,088
Other	301,820	-	-	301,820	199,355
Total Fees for Services	<u>829,924</u>	<u>-</u>	<u>-</u>	<u>829,924</u>	<u>793,218</u>
Housing Rental and Related Revenue	51,335,928	-	-	51,335,928	48,760,525
Investment Income	327,795	167,340	-	495,135	378,079
Other Receipts and Recoveries from Housing Communities	274,989	-	-	274,989	-
Miscellaneous	400,050	-	-	400,050	372,540
Total Housing and Other Revenue	<u>52,338,762</u>	<u>167,340</u>	<u>-</u>	<u>52,506,102</u>	<u>49,511,144</u>
Total Revenues from Operations	<u>60,187,310</u>	<u>(743,770)</u>	<u>483,412</u>	<u>59,926,952</u>	<u>60,606,455</u>
<b>EXPENSES FROM OPERATIONS:</b>					
Program Services:					
Property Management	60,445,939	-	-	60,445,939	54,826,287
Housing Development	1,796,414	-	-	1,796,414	1,945,626
Advantage Services	4,484,518	-	-	4,484,518	4,474,172
Asset Management	418,995	-	-	418,995	583,322
Community Engagement	70,288	-	-	70,288	68,280
Total Program Services	<u>67,216,154</u>	<u>-</u>	<u>-</u>	<u>67,216,154</u>	<u>61,897,687</u>
Supporting Services:					
General and Administrative	1,184,667	-	-	1,184,667	968,147
Fund Development	1,721,442	-	-	1,721,442	1,570,682
Total Supporting Services	<u>2,906,109</u>	<u>-</u>	<u>-</u>	<u>2,906,109</u>	<u>2,538,829</u>
Total Expenses from Operations	<u>70,122,263</u>	<u>-</u>	<u>-</u>	<u>70,122,263</u>	<u>64,436,516</u>
<b>CHANGE IN NET ASSETS BEFORE OTHER INCOME AND EXPENSE</b>	<u>(9,934,953)</u>	<u>(743,770)</u>	<u>483,412</u>	<u>(10,195,311)</u>	<u>(3,830,061)</u>
<b>OTHER INCOME AND (EXPENSE):</b>					
Principal and Accrued Interest Forgiven	7,044,990	-	-	7,044,990	400,000
Loss on Disposal of Property and Equipment	(1,363,172)	-	-	(1,363,172)	(961,797)
Residual Receipts Recapture	-	-	-	-	(551,878)
Gain on Deconsolidation of Affiliate	2,064,669	-	-	2,064,669	-
Gains (Losses) on Investments, Net	60,154	407,068	-	467,222	(209,106)
Total Other Income and (Expense)	<u>7,806,641</u>	<u>407,068</u>	<u>-</u>	<u>8,213,709</u>	<u>(1,322,781)</u>
<b>CHANGE IN NET ASSETS</b>	<u>(2,128,312)</u>	<u>(336,702)</u>	<u>483,412</u>	<u>(1,981,602)</u>	<u>(5,152,842)</u>
Non-Controlling Interests in Losses	10,065,413	-	-	10,065,413	8,107,166
<b>CHANGE IN NET ASSETS AFTER NON-CONTROLLING INTERESTS</b>	<u>\$ 7,937,101</u>	<u>\$ (336,702)</u>	<u>\$ 483,412</u>	<u>\$ 8,083,811</u>	<u>\$ 2,954,324</u>

See Accompanying Notes to Consolidated Financial Statements.

**COMMONBOND COMMUNITIES**  
**CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**  
**(With Comparative Totals for 2015)**

	Unrestricted			Temporarily Restricted	Permanently Restricted	Total
	Controlling Interests	Non-controlling Interests	Total			
<b>Balance, December 31, 2014</b>	\$ 7,324,159	\$ 99,310,388	\$ 106,634,547	\$ 101,028,746	\$ 6,617,648	\$ 214,280,941
Change in Net Assets	305,220	(8,107,166)	(7,801,946)	849,375	1,799,729	(5,152,842)
Assignment of Noncontrolling Interest to Controlling Interest	9,448,677	(9,448,677)	-	-	-	-
Other Housing Activity:						
Capital Contributions	-	17,748,405	17,748,405	-	-	17,748,405
Cash Distributions	-	(15,837)	(15,837)	-	-	(15,837)
Syndication Costs and Other	-	(158,318)	(158,318)	-	-	(158,318)
<b>Balance, December 31, 2015</b>	17,078,056	99,328,795	116,406,851	101,878,121	8,417,377	226,702,349
Change in Net Assets	7,937,101	(10,065,413)	(2,128,312)	(336,702)	483,412	(1,981,602)
Assignment of Noncontrolling Interest to Controlling Interest	577,685	(577,685)	-	-	-	-
Other Housing Activity:						
Capital Contributions	-	20,837,559	20,837,559	-	-	20,837,559
Cash Distributions	-	(106,966)	(106,966)	-	-	(106,966)
Syndication Costs and Other	-	(250,900)	(250,900)	-	-	(250,900)
<b>Balance, December 31, 2016</b>	<u>\$ 25,592,842</u>	<u>\$ 109,165,390</u>	<u>\$ 134,758,232</u>	<u>\$ 101,541,419</u>	<u>\$ 8,900,789</u>	<u>\$ 245,200,440</u>

See Accompanying Notes to Consolidated Financial Statements.



**COMMONBOND COMMUNITIES**  
**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**  
**(With Comparative Totals for 2015)**

	2016												2015
	PROGRAM SERVICES							SUPPORTING SERVICES					
	Property Management	Housing Development	Advantage Services	Asset Management	Community Engagement	Housing Communities	Eliminations	Total	General and Administrative	Fund Development	Eliminations	Total	
Salaries, Taxes and Fringes:													
Salaries	\$ 2,735,508	\$ 1,064,209	\$ 2,876,575	\$ 304,358	\$ 48,441	\$ 6,468,088	\$ -	\$ 13,497,179	\$ 496,912	\$ 821,473	\$ -	\$ 14,815,564	\$ 14,394,133
Payroll Taxes and Fringes	493,627	192,163	534,009	54,877	8,935	1,606,988	-	2,890,599	90,990	152,635	-	3,134,224	3,176,852
Total Salaries, Taxes and Fringes	<u>3,229,135</u>	<u>1,256,372</u>	<u>3,410,584</u>	<u>359,235</u>	<u>57,376</u>	<u>8,075,076</u>	<u>-</u>	<u>16,387,778</u>	<u>587,902</u>	<u>974,108</u>	<u>-</u>	<u>17,949,788</u>	<u>17,570,985</u>
Consulting Services	59,636	75,418	139,528	6,399	893	-	-	281,874	244,771	131,794	-	658,439	535,818
Office Supplies and Printing	159,115	60,210	135,621	17,374	2,385	-	-	374,705	59,727	28,166	-	462,598	632,596
Telephone	63,606	24,374	22,558	7,210	549	-	-	118,297	7,720	6,039	-	132,056	95,093
Occupancy	19,858	-	-	-	-	-	(19,858)	-	567,459	-	(567,459)	-	-
Travel	98,777	38,270	85,018	11,046	1,504	-	-	234,615	16,264	23,568	-	274,447	252,570
Education and Training	54,561	21,230	57,858	6,069	973	-	-	140,691	9,942	16,527	-	167,160	121,792
In-Kind Expense	-	-	2,214	-	-	-	-	2,214	-	120,589	-	122,803	111,664
Program Expense	-	-	101,110	-	-	-	-	101,110	-	-	-	101,110	113,146
Housing Development Expense	-	64,782	-	-	-	-	-	64,782	-	-	-	64,782	-
Bad Debt	-	121,919	-	-	-	-	(50,000)	71,919	-	18,964	-	90,883	21,603
Fundraising Expense	-	-	-	-	-	-	-	-	-	264,209	-	264,209	204,075
Miscellaneous	10,033	11,202	37,061	730	512	-	-	59,538	24,027	9,932	(20,000)	73,497	90,099
Operating and Maintenance	80,712	32,184	174,742	8,687	2,586	18,224,698	(5,924,759)	12,598,850	24,295	50,725	-	12,673,870	10,627,771
Utilities	-	-	-	-	-	4,778,288	-	4,778,288	-	-	-	4,778,288	4,748,052
Insurance	-	-	-	-	-	1,717,021	-	1,717,021	26,985	-	-	1,744,006	1,879,846
Real Estate Taxes	-	-	-	-	-	4,656,965	-	4,656,965	-	-	-	4,656,965	4,403,085
Depreciation and Amortization	-	-	-	-	-	18,033,048	(1,761,611)	16,271,437	177,686	-	-	16,449,123	14,723,891
Interest and Other Finance Charges	26,451	93,576	261,566	2,245	3,510	10,962,682	(1,993,960)	9,356,070	25,348	76,821	-	9,458,239	8,304,430
	<u>3,801,884</u>	<u>1,799,537</u>	<u>4,427,860</u>	<u>418,995</u>	<u>70,288</u>	<u>66,447,778</u>	<u>(9,750,188)</u>	<u>67,216,154</u>	<u>1,772,126</u>	<u>1,721,442</u>	<u>(587,459)</u>	<u>70,122,263</u>	<u>64,436,516</u>
Housing Communities by Function	64,797,543	106,145	1,544,090	-	-	(66,447,778)	-	-	-	-	-	-	-
Eliminations by Function	(8,153,488)	(109,268)	(1,487,432)	-	-	-	9,750,188	-	(587,459)	-	587,459	-	-
	<u>\$ 60,445,939</u>	<u>\$ 1,796,414</u>	<u>\$ 4,484,518</u>	<u>\$ 418,995</u>	<u>\$ 70,288</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 67,216,154</u>	<u>\$ 1,184,667</u>	<u>\$ 1,721,442</u>	<u>\$ -</u>	<u>\$ 70,122,263</u>	<u>\$ 64,436,516</u>

See Accompanying Notes to Consolidated Financial Statements.

**COMMONBOND COMMUNITIES**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**  
**(With Comparative Totals for 2015)**

	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in Net Assets	\$ (1,981,602)	\$ (5,152,842)
Adjustments to Reconcile Change in Net Assets to Net Cash From Operating Activities:		
Depreciation	16,165,419	14,525,874
Amortization	897,186	673,206
Grants Used for Construction	(2,689,999)	(6,925,934)
Gain on Deconsolidation of Affiliate	(2,064,669)	-
Gains (Losses) on Investments	(467,222)	209,106
Reinvested Income on Investments and Endowment	(170,975)	(194,791)
Donated Land	-	(56,400)
Loss on Disposal of Property	1,363,172	961,797
Write-off of Debt Issuance Costs	-	38,296
Principal and Accrued Interest Forgiven	(7,044,990)	(400,000)
Permanently Restricted Contributions	(224,478)	(752,674)
Contributions Restricted for Capital Campaign	(79,540)	(136,918)
Changes in Operating Assets and Liabilities:		
Accounts and Notes Receivable	(334,899)	(206,315)
Contributions Receivable	(9,813)	453,799
Prepaid Expenses	(470,399)	1,317,898
Accounts Payable and Accrued Expenses	2,527,882	633,360
Accrued Interest	2,331,407	641,613
Other Liabilities and Deferred Grants	70	(50,013)
Net Cash From Operating Activities	7,746,550	5,579,062
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of Property and Equipment	(84,736,011)	(20,982,953)
Purchase of Investments Held for Endowment	(47,061)	(1,474,181)
Proceeds from Sale of Investments Held for Endowment	89,617	-
Purchase of Certificates of Deposit	(5,000,000)	-
Proceeds from Sale of Investments	-	1,378,346
Change in Restricted Reserves and Investments	(31,654,837)	(7,881,428)
Investments in Partnerships and LLCs	(27,232)	-
Cash of Deconsolidated Affiliate	(1,585,574)	-
Net Cash From Investing Activities	(122,961,098)	(28,960,216)

See Accompanying Notes to Consolidated Financial Statements.

**COMMONBOND COMMUNITIES**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**  
**(With Comparative Totals for 2015)**

	2016	2015
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from Long-Term Debt and Construction Notes	\$ 109,801,336	\$ 19,032,405
Payments on Long-Term Debt and Construction Notes	(17,325,191)	(13,422,834)
NeighborWorks America Capital Grants, net	184,000	490,000
Contributions Restricted for Endowment	40,478	262,674
Contributions Restricted for Capital Campaign	79,540	136,918
Grants Received for Construction	2,689,999	6,925,934
Change in Due to Partners	(7,125)	5,000
Payment of Deferred Charges	(2,187,070)	(697,368)
Capital Contributions - Housing Communities	20,837,559	17,748,405
Distributions - Housing Communities	(106,966)	(15,837)
Syndication Costs - Housing Communities	(250,900)	(158,318)
Net Cash From Financing Activities	113,755,660	30,306,979
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	(1,458,888)	6,925,825
Cash and Cash Equivalents - Beginning of Year	27,532,861	20,607,036
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 26,073,973	\$ 27,532,861
<b>RECONCILIATION TO THE STATEMENT OF FINANCIAL POSITION:</b>		
Cash and Cash Equivalents	\$ 13,642,943	\$ 14,770,362
Temporarily Restricted Cash	12,431,030	12,762,499
Total Cash and Cash Equivalents	\$ 26,073,973	\$ 27,532,861
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>		
Interest Paid	\$ 7,826,617	\$ 6,684,771
Noncash Investing and Financing Activities:		
Additions to Property and Equipment Included in Liabilities	7,969,333	4,137,982
Acquisition of Property and Equipment financed by		
Assumption of Long-Term Debt and Seller Loan	32,127,667	-

See Accompanying Notes to Consolidated Financial Statements.

# COMMONBOND COMMUNITIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

### 1. DESCRIPTION OF THE ORGANIZATION

CommonBond Communities (the Organization) is a nonprofit corporation whose mission is to build stable homes, strong futures, and vibrant communities.

The Organization develops, owns, and manages affordable housing. The Organization acquires parcels of real estate and administers construction or rehabilitation of rental units and provides for asset management, property management, and other services and support to individuals, families, the neighborhood, and the community in order to achieve its mission. The Organization owns or manages approximately 5,750 affordable rental apartments and townhomes.

The Organization controls approximately 100 affordable housing communities through its general partner and managing member interests, and affiliated nonprofit corporations. These communities are collectively referred to as the Housing Communities.

Advantage Services are provided to residents on-site and are a critical component of the Organization's integrated Housing and Services model focused on supporting residents of all ages for long-term stability and independence. Advantage Services supports residents' efforts to achieve their goals while connecting them to the community through tailored on site programs and services provided by CommonBond staff and partnerships with other organizations. Programs and services provided include: stability and independence; education and advancement; health and wellness; and community building and engagement.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of Presentation** – The consolidated financial statements generally reflect the same classifications that appear in the individual financial statements of each affiliated entity, except for the unamortized portions of the Section 1602 deferred grants which are reported as temporarily restricted net assets in the consolidated financial statements.

**Prior Year Summarized Information** – The financial statements include certain prior year summarized information in total but not by net asset class or by functional 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 the Organization's financial statements for the year ended December 31, 2015, from which the summarized information was derived.

**Use of Estimates** – The preparation of financial statements in conformity with generally accepted accounting principles 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.

(Continued)

## COMMONBOND COMMUNITIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

**Consolidation Method** – The consolidated financial statements include the accounts of CommonBond Communities, its wholly owned subsidiaries, and all affiliated organizations, limited partnerships, limited liability companies, and nonprofit organizations over which CommonBond Communities exercises control. All material intercompany accounts and transactions have been eliminated.

The primary subsidiaries and affiliated organizations are:

**CommonBond Endowment Corporation** is a nonprofit corporation organized to solicit grants and contributions to benefit the Advantage Services program. The directors of CommonBond Endowment Corporation are appointed by the CommonBond Communities Board of Directors.

**CommonBond Housing** is organized as a corporation which provides property management and maintenance services to housing communities located in Minnesota, Wisconsin and Iowa. The directors of CommonBond Housing are appointed by the CommonBond Communities Board of Directors.

CommonBond Housing's wholly owned subsidiary, **CommonBond Investment Corporation**, owns general partner and managing member interests in limited partnerships and limited liability companies that own and operate the Housing Communities.

**CommonBond Office, LLC** is a limited liability company organized to own and operate the Organization's corporate office building. CommonBond Communities is the sole member of the company.

**CommonBond Housing Opportunity Fund LLC** is a limited liability company organized to promote and foster decent, safe affordable housing by providing financial support to unsubsidized Housing Communities designated for low to moderate income persons and families. CommonBond Communities is the sole member of the company.

**CommonBond Wisconsin, LLC** is a limited liability company organized to assist CommonBond Communities in providing housing and related community facilities in Wisconsin. CommonBond Communities is the sole member of the company.

**CommonBond Acquisition, LLC and CB Kohl Acquisition, LLC** are limited liability companies organized to acquire, and hold property interests for developing or renovating Housing Communities. CommonBond Communities is the sole member of the companies.

**CBC Development, LLC** is a limited liability company organized to develop or renovate Housing Communities. CommonBond Communities is the sole member of the company.

**Housing Communities** consist of affiliated limited partnerships, limited liability companies and nonprofit organizations that own and operate affordable rental apartments and townhomes.

(Continued)

## COMMONBOND COMMUNITIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

**Accounting for Limited Partnerships and Limited Liability Companies** – Under generally accepted accounting principles, there is a presumption that a general partner or managing member in a limited partnership or limited liability company has control over that partnership or limited liability company, regardless of the percentage of ownership. Therefore, the Organization has consolidated these entities. The partnership and member interests generally range from .01% to 1.0% with the remainder of the partnership and limited liability company equity held primarily by investor limited partners and members. The interests of the non-controlling limited and general partners and members have been included in net assets and the change in net assets.

The Organization records its investments in limited partnerships and limited liability companies using the equity method of accounting. The initial investment is increased by additional investments and income and decreased by distributions and losses. The investment is not reduced below zero unless future capital contributions and advances will be made in an amount sufficient to absorb the losses or unless there are outstanding receivables. Investments in limited partnerships and limited liability companies over which the Organization has control are eliminated in the consolidating financial statements because such entities are consolidated.

In accordance with the consolidation topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification, the Organization continues to allocate losses to non-controlling limited and general partners and members when those losses exceed the equity of the non-controlling limited and general partners and members.

**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:

***Unrestricted net assets*** - Unrestricted net assets represent the portion of net assets that are not subject to donor restrictions. Designated amounts represent those revenues which the Board has set aside for a particular purpose.

***Temporarily restricted net assets*** - Temporarily restricted net assets arise from contributions that are restricted by donors for specific purposes or time periods.

***Permanently restricted net assets*** - Permanently restricted net assets arise from contributions that the donor has stipulated must be maintained permanently and that allow, in certain cases, only the income earned to be expended.

(Continued)

## COMMONBOND COMMUNITIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

**Fair Value Measurements** – The Organization uses a three-level fair value hierarchy to categorize assets and liabilities that are measured at fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used in the determination of the fair value measurement fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement.

Assets and liabilities valued at fair value are categorized based on the inputs to the valuation techniques as follows:

- Level 1 – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Organization has the ability to access.
- Level 2 – Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.
- Level 3 – Inputs that are unobservable inputs for the asset or liability, which are typically based on an organization's own assumptions, as there is little, if any, related market activity.

**Cash Equivalents** – The Organization considers highly liquid instruments purchased with a maturity of three months or less and any certificates of deposit that do not contain material early withdrawal penalties to be cash equivalents.

Generally, for purposes of the statement of cash flows, cash equivalents exclude escrows and reserves which are restricted as to use by organizing or debt agreements and negotiable certificates of deposit which are considered investments.

**Temporarily Restricted Cash** – Corporate temporarily restricted cash represents amounts received but not yet spent that are subject to donor or lender imposed restrictions (\$893,912 as of December 31, 2016). Housing Communities' temporarily restricted cash consists of tenant security deposits, and operating cash restricted by organizational documents, mortgage agreements and government agencies (\$11,537,118 as of December 31, 2016).

Security deposits plus interest are reported as a liability and included as part of the accrued expenses balance.

**Investments** – Investments in publicly traded mutual funds, debt and other securities are reported at fair value in the consolidated statement of financial position. Unrealized gains and losses are included in the change in net assets in the accompanying consolidated statement of activities.

(Continued)

## COMMONBOND COMMUNITIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

The Organization has a 3.3% equity interest in the Housing Partnership Insurance Exchange (HPIEx), an organization formed to reduce and stabilize property and liability insurance premiums for its subscribers. The investment in HPIEx is recorded on a cost basis as the Organization is not able to influence the operating or financial policies of HPIEx. Under that method, the Organization records income only to the extent of distributions.

**Restricted Escrows and Reserves** – In accordance with the terms of the Housing Communities’ long-term debt, limited partnership, and limited liability company operating agreements, the communities are required to maintain escrow and reserve accounts primarily for future use in property refurbishments, operating reserves, debt service, and payment of real estate taxes and insurance. Restricted reserves include \$325,000 of permanently restricted cash at December 31, 2016.

During 2015, HUD communicated its intent to recapture excess residual receipts reserves held by Section 202 and 811 Housing Communities. As a result, an expense of \$551,878 was recorded and was presented on the consolidated statement of activities as Residual Receipts Recapture.

**Notes Receivable** – Notes receivable primarily arise from the sale of controlled Housing Communities to a new controlled Housing Community. All significant notes receivable are eliminated in the consolidated financial statements.

**Accounts Receivable** – Receivables consist of amounts due from tenants under the corresponding leases and amounts due from housing regulatory agencies under approved contracts. Receivables also include working capital advances to properties in the development stage. Interest accrues on working capital advances during the construction phase. No collateral is required for receivables. Accounts receivable are reported net of an allowance for uncollectable balances. Accounts receivable are written off after 180 days as a charge to the allowance when, in management’s estimation, it is probable that the receivable is uncollectable.

**Contributions Receivable** – Promises to give that are expected to be collected within one year are recorded at their net realizable value. Promises that are expected to be collected in future years are recorded at the present value of the amounts expected to be collected. The discounts on those amounts are computed using a discount rate applicable to the year in which the pledge is received, .81% for 2016, .61% for 2015 and .22% for 2014. Amortization of the discount is included in contributions revenue. At December 31, 2016, an allowance for uncollectable promises to give of \$10,470 has been recorded. Contributions receivable are written off when, in management’s estimation, it is probable that the receivable is worthless.

(Continued)



**COMMONBOND COMMUNITIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

**Property and Equipment** – Property and equipment are recorded at acquisition cost. Donated property and equipment are recorded at estimated fair market value as of the date of contribution. Costs to develop the properties incurred for interest, finance fees, real estate taxes and insurance are capitalized only during periods in which activities necessary to prepare the property for its intended use are in progress. After development is completed, capital expenditures of \$1,000 or more are capitalized. The costs of ordinary repairs and maintenance are expensed when incurred. Depreciation is computed using straight-line and accelerated methods.

The estimated useful lives of Property and Equipment are as follows:

Land improvements	5-40 years
Buildings	5-45 years
Furniture and equipment	3-15 years

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

**Deferred Charges** – Deferred charges primarily represent tax credit fees of the Housing Communities. These costs are amortized on a straight-line basis over the compliance period or recapture periods of the tax credits (5-15 years) and are recorded net of accumulated amortization of \$711,225 and \$549,983 at December 31, 2016 and 2015, respectively.

**Debt Issuance Costs** – Debt issuance costs are amortized over the term of the related debt using the straight-line method.

**Presentation of Debt Issuance Costs - New Accounting Standard** - In 2016 the Organization retrospectively adopted new accounting guidance which requires that finance fees be presented as a reduction of the carrying amount of the related debt rather than as an asset. Amortization of debt issuance costs must be reported as interest expense rather than amortization expense.

The 2015 statement of financial position has been restated to reclassify the debt issuance costs as required by the new guidance. The reclassification reduced deferred charges and long-term debt at December 31, 2015 by \$4,710,028. In addition, interest expense for 2015 has been increased and amortization expense has been decreased by \$475,189. The change did not impact the 2015 change in net assets or net assets at December 31, 2015.

(Continued)

## COMMONBOND COMMUNITIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

**Long-Lived Assets** – The Organization evaluates its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable. In these circumstances, the Organization evaluates the recoverability of long-lived assets by measuring the carrying amount of the assets against the estimated undiscounted future cash flows associated with such assets. When evaluations indicate that the future undiscounted cash flows of the long-lived assets are not sufficient to recover the carrying value of such assets, the assets are adjusted to their fair values.

At December 31, 2016 and 2015, management believes that the carrying amounts of its long-lived assets have not been impaired.

**Contributions** – Contributions are recognized when the donor makes an unconditional promise to give to the Organization. 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.

Conditional promises to give are recognized as revenue when the conditions are substantially met.

Awards received from NeighborWorks are treated as contributions. Such awards include:

- Expendable awards represent unrestricted or temporarily restricted support provided to CommonBond Communities' program activities.
- Capital awards are permanently restricted for capital projects. The initial grant amount is permanently restricted although proceeds on capital projects, or interest earned, over and above the corpus may be transferred to unrestricted net assets for furthering the CommonBond Communities' mission.

**Government Grants and Contracts** – Government grants and contract funds are generally considered exchange transactions and are recorded as revenue when earned. Revenue is earned when eligible expenditures, as defined in each grant or contract, are incurred. Funds received but not yet earned are recorded as deferred grants. Expenditures under government grants and contracts are subject to review by the granting authority. If, as a result of such a review, expenditures are determined to be unallowable, the disallowance will be recorded at the time the assessment for refund is made.

(Continued)

## COMMONBOND COMMUNITIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

Capital advances are received from the Department of Housing and Urban Development (HUD) under the Section 202 and 811 programs. These grants are subject to several requirements, including that the related property be used as affordable housing for 40-55 years. Based on the history of the Organization, management believes violation of the agreements and repayment of these grants are not likely. These grants are reported as temporarily restricted net assets and released to unrestricted net assets upon expiration of the grant requirements.

Forgivable loans are recognized as a contribution or grant in the period they are received if the loan agreement specifies the lender will forgive the loan under a defined set of conditions, and violation of the conditions which will lead to forgiveness is considered a remote possibility. These contributions or grants are recognized as temporarily restricted revenue when received and released from restriction when those conditions have been met.

Revenue from Section 1602 grants from state housing agencies is deferred and recognized as revenue using the straight-line method over 30 years on the Housing Community financial statements. For the consolidated financial statements, these grants are recognized as temporarily restricted revenue when received and released from restriction on a straight-line basis over the 15-year compliance period.

**Special Events** – Revenue from special events during 2016 consists of \$575,141 of contributions and \$160,674 of miscellaneous income.

**Recognition of Housing Rental Income** – Leases with tenants of all Housing Communities are classified as operating leases and generally have terms of one year or less. Housing rental income consists of rent and rental subsidies which are recognized monthly as provided for by the underlying agreements.

**Developer Fees** – Developer fees are recognized under the percentage of completion method during the different phases of the project. Developer fees are eliminated in the consolidated financial statements.

**Property Management and Related Fees** – Property management and related fees are recorded in accordance with the terms of the agreements.

**Donated Services, Facilities and Materials** – Donated services are recorded in the consolidated statement of activities at estimated market value if the services create or enhance non-financial assets or require specialized skills which would have been purchased if not provided through donation. Donated materials are valued and recorded at their estimated market value at the date of receipt. Donated office space is valued and recorded at estimated rental value.

(Continued)

## COMMONBOND COMMUNITIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

**Functional Expenses** – Expenses have been recorded in program services, general and administrative and fund development categories based on specific identification. In the absence of specific identification, expenses have been allocated primarily based on estimated staff time spent in each category.

**Income Taxes** – CommonBond Communities and affiliated nonprofit organizations are exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC) and applicable Minnesota Statutes, except to the extent they have taxable income from activities that are not related to their exempt purposes. Unrelated business income is taxed at the corporate income tax rate. Management believes CommonBond Communities and its affiliated nonprofit organizations did not have any unrelated business income except for various fees and distributions received from Housing Communities for 2016. Management believes CommonBond Communities did not have any uncertain tax positions for 2016.

CommonBond Endowment Corporation is exempt from income taxes under Section 501(c)(3) of the IRC and is classified as a supporting organization as described by IRC 509(a)(3).

CommonBond Office, LLC; CommonBond Housing Opportunity Fund LLC; CommonBond Wisconsin, LLC; CommonBond Acquisition, LLC and CB Kohl Acquisition, LLC are not taxable entities. Income or losses are passed through to CommonBond Communities, their sole member.

Net income of CommonBond Housing, its subsidiary CommonBond Investment Corporation, CBC Development, LLC and two Housing Communities are subject to federal and state corporate income taxes.

The limited partnerships and limited liability companies are not taxable entities. Income or losses are passed through to the partners or members.

Any interest or penalties associated with tax positions are reported as such within the general and administrative expenses category on the Statement of Activities. For 2016, there were no such interest or penalties recorded in the accompanying financial statements.

(Continued)

**COMMONBOND COMMUNITIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

**3. CONTRIBUTIONS RECEIVABLE**

Contributions receivable are due as follows:

	2016	2015
Amount receivable within one year	\$ 454,295	\$ 440,540
Amount receivable in 1-5 years	5,000	10,000
	459,295	450,540
Less allowance	(10,470)	(11,506)
Less amount representing discount	(11)	(33)
Contributions receivable (net)	448,814	439,001
Less current portion	(443,825)	(429,034)
Contributions receivable (net), noncurrent	\$ 4,989	\$ 9,967

Contributions receivable are for:

	2016	2015
General operations and other	\$ 418,925	\$ 315,166
Capital Campaign restrictions	19,400	98,940
Endowment	10,489	24,895
Contributions receivable (net)	\$ 448,814	\$ 439,001

At December 31, 2016, 60% of the Organization's contributions receivable were due from one contributor. At December 31, 2015, 52% of the Organization's contributions receivable were due from three contributors.

Contributions receivable due from related parties totaled \$14,244 and \$102,392 at December 31, 2016 and 2015. Related parties include members of the Executive Committee, Directors, General Counsel, members of the Finance Committee, and select staff.

(Continued)

**COMMONBOND COMMUNITIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

**4. PROPERTY AND EQUIPMENT**

Property and equipment consist of the following:

	2016	2015
Land and land improvements	\$ 46,439,300	\$ 41,784,102
Buildings	515,501,485	434,105,976
Furniture and equipment	16,666,418	18,360,714
Construction in progress	3,058,584	5,563,932
	581,665,787	499,814,724
Accumulated depreciation	(116,749,842)	(124,521,344)
	\$ 464,915,945	\$ 375,293,380

**5. INVESTMENTS HELD FOR ENDOWMENT**

Investments held for endowment consist of the following:

	2016	2015
Mutual funds:		
Small growth fund	\$ 311,579	\$ 303,413
Intermediate-term bond funds	2,525,056	2,878,783
Short-term bond fund	629,202	710,861
Domestic large blend fund	2,063,114	1,840,072
Mid-cap blend fund	324,937	291,556
Foreign large blend fund	2,129,534	1,589,731
Large growth fund	674,441	630,046
Large value fund	716,896	606,180
Catholic Community Foundation (70% equity funds, 30% fixed income funds)	17,440	16,287
	\$ 9,392,199	\$ 8,866,929

Net investment return consisted of the following for 2016 and 2015:

Gains (losses), net	\$ 407,068	\$ (226,738)
Investment income	186,078	195,477
Fees	(18,738)	(29,171)
	\$ 574,408	\$ (60,432)

(Continued)

**COMMONBOND COMMUNITIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

**6. LONG-TERM DEBT**

Long-term debt consists of the following:

	2016	2015
Note payable to US Bank in the original amount of \$1,000,000. Interest is payable quarterly at a rate of 4.0%. Principal is due at maturity on April 28, 2018 with options to extend the maturity date 5 years. The note is unsecured.	\$ 1,000,000	\$ 1,000,000
Note payable to MacArthur Foundation in the original amount of \$1,500,000. Interest is payable quarterly at a rate of 2.0%. Principal is due in two principal installments of \$750,000 on April 1, 2017 and 2018. The note is unsecured.	1,500,000	1,500,000
EQ2 note payable to Wells Fargo in the amount of \$1,500,000. Interest is payable quarterly at a rate of 2.0%. Principal is due at maturity on December 30, 2017 with an option to extend the maturity date to December 30, 2019. The note is unsecured.	1,500,000	1,500,000
EQ2 note payable to Ameriprise Bank in the original amount of \$1,500,000. Interest is payable quarterly at a rate of 3.75%. Principal is due at maturity on March 22, 2018 with options to extend the maturity date 4 years. The note is unsecured.	1,500,000	1,500,000
EQ2 note payable to Ameriprise Bank in the original amount of \$2,000,000. Interest is payable quarterly at a rate of 3.75%. Principal is due at maturity on December 16, 2018 options to extend the maturity date 4 years. The note is unsecured.	2,000,000	2,000,000
Note payable to Otto Bremer Trust in the original amount of \$1,000,000. Interest is payable annually at a rate of 2%. Principal is due at maturity on December 21, 2020. The note is unsecured.	1,000,000	1,000,000

(Continued)

## COMMONBOND COMMUNITIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

#### 6. LONG-TERM DEBT (Continued)

	2016	2015
Note payable to Bremer Bank in the original amount of \$800,000 with interest at 4.20%. Principal and interest were due in monthly payments of \$11,030 through November 27, 2019. The note was prepaid in 2016.	\$ -	\$ 476,742
Note payable to Housing Partnership Fund in the original amount of \$420,000 with interest at 4.20%. Interest is due annually on April 1. Principal and unpaid interest are due January 31, 2042.	420,000	420,000
Note payable to Region 6 Housing Trust Fund, Inc. in the original amount of \$25,000 with interest at 2%. Principal and interest are due in monthly payments of \$438 through September 2019.	14,473	19,388
Note payable to Local Initiatives Support Corporation (LISC) in the original amount of \$50,000 with no interest. Note is to cover predevelopment costs for the Seward Towers development. The loan was paid in 2016.	-	50,000
Note payable to Local Initiatives Support Corporation (LISC) in the original amount of \$50,000 with no interest. Note is to cover predevelopment costs for CommonBond's Garfield and Dover development. The loan was forgiven in 2016.	-	50,000
Note payable to Enterprise Community Loan Fund, Inc. in the original amount of \$2,367,123 with interest at 5%. Principal and interest are due in bi-annual payments based on a 35.5-year amortization period through July 31, 2023 when the remaining principal and interest are due.	2,367,123	-
Note payable to Enterprise Community Loan Fund, Inc. in the original amount of \$3,238,200 with interest at 6%. Interest only is due in bi-annual payments through July 31, 2023 when the remaining principal and interest are due. As of December 31, 2016, only \$2,277,367 has been drawn on this loan.	2,277,367	-

(Continued)



## COMMONBOND COMMUNITIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

#### 6. LONG-TERM DEBT (Continued)

	2016	2015
Note payable to Pohlad Family Foundation in the original amount of \$1,375,000 with interest at 3%. Principal and interest are due in annual payments solely from surplus cash of a Housing Community through July 28, 2023.	\$ 1,375,000	\$ -
Less unamortized debt issuance costs	(111,997)	(2,190)
Total Corporate Long-Term Debt, Net	14,841,966	9,513,940
Housing Communities Long-Term Debt:		
Amortizing loans	142,133,135	120,171,903
Non-amortizing loans	103,824,430	65,026,552
Totals	260,799,531	194,712,395
Less unamortized debt issuance costs	(5,251,792)	(4,707,838)
Less current maturities	(3,232,888)	(3,163,405)
Total Long-Term Debt, Net of Current Maturities	\$ 252,314,851	\$ 186,841,152

The Housing Communities long-term debt is held by various financial institutions and regulatory agencies and consists of:

- **Amortizing Loans** - require monthly payments of principal and interest, and have interest rates ranging from 0% to 8.75%.
- **Non-amortizing Loans** - due upon maturity and have interest rates ranging from 0% to 6.61% and mature at various dates through 2057.

Property and equipment of the Housing Communities are pledged as collateral for most of these loans.

During 2016, \$7,044,990 of Housing Communities principal (\$4,371,139) and interest (\$2,673,851) was forgiven by lenders. During 2015, \$400,000 of Housing Communities principal was forgiven by a lender.

The Organization is subject to debt covenants under the terms of various debt agreements. These covenants require, among other things, that the Organization maintain certain levels of debt to equity and current ratios.

(Continued)

## COMMONBOND COMMUNITIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

#### 6. LONG-TERM DEBT (Continued)

The following schedule of maturities of long-term debt reflects management's plans to exercise the available options to extend the maturity dates:

	Corporate	Consolidated Housing Communities	Total
2017	\$ 779,803	\$ 2,453,085	\$ 3,232,888
2018	781,076	2,790,739	3,571,815
2019	1,531,842	2,926,713	4,458,555
2020	1,028,489	9,091,464	10,119,953
2021	30,268	4,055,294	4,085,562
Thereafter	10,802,485	224,640,270	235,442,755
	<u>\$ 14,953,963</u>	<u>\$ 245,957,565</u>	<u>\$ 260,911,528</u>

#### 7. CONSTRUCTION NOTES

Construction notes are temporary financing for the construction of Housing Communities. The notes have interest rates ranging from a fixed rate of 1.1% to variable rates based on the monthly LIBOR rate plus basis points (2.69% at December 31, 2016). Upon completion of construction, the loans are expected to be repaid with capital contributions of \$18,363,502 and restricted reserves of \$29,000,000 in 2018. The notes are guaranteed by CommonBond Communities.

#### 8. LINES OF CREDIT

The Organization has a line of credit with Enterprise Community Partners, Inc. in the amount of \$250,000, at an interest rate of 3%. The line of credit expires July 31, 2017, unless renewed, and is secured by the accounts, equipment and other assets of CommonBond Communities. A balance of \$250,000 was outstanding under the line of credit at December 31, 2016 and 2015.

The Organization has a line of credit with Western Bank in the amount of \$1,000,000, at an interest rate of 3.25%. The line of credit expires July 15, 2017, unless renewed, and is secured by the accounts, equipment and other assets of CommonBond Communities. No amounts were advanced on the line of credit.

The Organization has a line of credit with GE Money Bank in the amount of \$2,000,000. Interest is payable quarterly at a rate of 4.25%. Each draw on the line of credit is due within 18 months of receipt. The line of credit expires December 31, 2018, unless renewed, and is secured by the accounts, equipment and other assets of CommonBond Communities. No amounts were advanced on the line of credit.

(Continued)

## COMMONBOND COMMUNITIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

#### 8. LINES OF CREDIT (Continued)

The Organization has a line of credit with Anchor Bank in the amount of \$1,000,000. Interest is payable monthly at a rate of 2% over LIBOR. Each draw on the line of credit is due when the line of credit expires on December 1, 2018, unless renewed. The line of credit is secured by the accounts of CommonBond Communities. No amounts were advanced on the line of credit.

#### 9. INTEREST RATE SWAPS

Two of the Housing Communities have debt with interest rates that fluctuate based on the LIBOR rate. The Organization has entered into interest rate swap agreements on these notes payable to reduce the impact of changes in interest rates by exchanging variable payments at LIBOR for fixed rate payments. The notional amount of the interest rate swaps was \$2,024,000 and \$2,054,000 at December 31, 2016 and 2015.

The swaps are reported as liabilities at fair value. The fair value of the swap derivatives is based on the present value of expected cash flows based on the market observable interest rate yield curve commensurate with the term of the swaps (Level 2 inputs). The swaps are carried at \$396,891 and \$472,585 at December 31, 2016 and 2015. The change in value of the interest rate swaps of \$75,694 in 2016 and \$21,895 in 2015 is included in gains (losses) on investments in the statement of activities.

No termination fees or penalties are due if the swaps are maintained through the maturity dates. Early termination triggers the payment of the settlement amount.

#### 10. TEMPORARILY RESTRICTED NET ASSETS

The following is a summary of temporarily restricted net assets activity for 2016:

	December 31, 2015	Additions/ (Reductions)	Released/ Transferred	December 31, 2016
Other	\$ 1,037,215	\$ 1,821,946	\$ (1,560,846)	\$ 1,298,315
Capital Campaign	327,265	-	(293,340)	33,925
Advantage Services				
Endowment earnings	1,704,447	574,408	(362,956)	1,915,899
Housing Communities:				
Forgivable loans	16,613,125	480,000	(90,000)	17,003,125
Section 1602 grants	8,974,269	-	(905,914)	8,068,355
HUD capital advances	73,221,800	-	-	73,221,800
	<u>\$ 101,878,121</u>	<u>\$ 2,876,354</u>	<u>\$ (3,213,056)</u>	<u>\$ 101,541,419</u>

(Continued)

**COMMONBOND COMMUNITIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

**10. TEMPORARILY RESTRICTED NET ASSETS (Continued)**

In 2016, the Organization transferred \$273,340 of capital campaign contributions to the endowment.

Temporarily restricted net assets consist of \$893,912 temporarily restricted cash; \$438,325 contributions receivable; \$1,915,899 investments held for endowment; and \$98,293,283 of Housing Communities' assets.

**11. PERMANENTLY RESTRICTED NET ASSETS**

The following is a summary of permanently restricted net assets:

	<u>2016</u>	<u>2015</u>
Advantage Services Endowments (Note 15):		
General Advantage Services Endowment	\$ 6,787,759	\$ 6,514,398
Paul Fate Youth Endowment	270,855	270,804
Veterans Housing Endowment	320,025	320,025
Lauren Kesson Youth Endowment	108,150	82,150
NeighborWorks America Capital Grants	<u>1,414,000</u>	<u>1,230,000</u>
	<u>\$ 8,900,789</u>	<u>\$ 8,417,377</u>

CommonBond Communities is a member organization of NeighborWorks America (NeighborWorks). NeighborWorks is a public, congressionally chartered nonprofit organization that receives funding through annual congressional appropriations. It is not a federal agency, but a recipient of federal funds that was organized for the purpose of receiving federal funds and making sub-grants to NeighborWorks member organizations. As a member organization, CommonBond Communities must comply with the terms of the Investment and Grant Agreement including financial reporting and will be eligible for additional grants to support operations and development of affordable housing. During 2016, NeighborWorks approved the release of \$316,000 of permanently restricted funds.

**12. DONATED SERVICES, RENT AND MATERIALS**

For 2016 and 2015, CommonBond Communities received significant donated services and materials. Many of the donated services were provided to the residents of Housing Communities serviced by the Organization and are considered integral to the accomplishment of the Organization's mission.

Certain donated services met the established criteria for recording their value in the consolidated financial statements, whereas other services were not recorded in the financial statements.

(Continued)

## COMMONBOND COMMUNITIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

#### 12. DONATED SERVICES, RENT AND MATERIALS (Continued)

The estimated value of donated services and materials was as follows:

	2016	2015
Services which met the criteria for recording as contributions	\$ 101,108	\$ 40,100
Land	-	56,400
Materials and furniture	48,188	71,564
Donated services and materials recorded as contributions	149,296	168,064
Services not recorded (unaudited)	315,218	439,817
Total donated services, rent, and materials	<u>\$ 464,514</u>	<u>\$ 607,881</u>

#### 13. INCOME TAXES

CommonBond Housing and its wholly owned subsidiary, CommonBond Investment Corporation, and two Housing Communities are subject to federal and state corporate income taxes. These entities utilize an asset and liability approach to financial accounting and reporting for income taxes. Deferred tax assets and liabilities are computed annually for differences between the financial statement and tax basis of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. The provision for income taxes is the tax payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities.

The items giving rise to deferred income taxes consist principally of allowances for doubtful accounts, depreciation deductions, deductibility of pass-through losses from investments held in Housing Communities, and net operating loss carry-forwards. Due to the uncertainty of future taxable income, the Organization has fully reserved against its net deferred tax assets at December 31, 2016 and 2015.

(Continued)

**COMMONBOND COMMUNITIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

**13. INCOME TAXES (Continued)**

The net deferred tax asset in the accompanying consolidated statement of financial position includes the following amounts:

	2016	2015
Deferred tax assets	\$ 3,577,000	\$ 3,660,000
Deferred tax liabilities	(1,400,000)	(1,575,000)
Net deferred tax asset	2,177,000	2,085,000
Less valuation allowance	(2,177,000)	(2,085,000)
Total deferred tax asset	<u>\$ -</u>	<u>\$ -</u>
 Change in valuation allowance	 <u>\$ 92,000</u>	 <u>\$ 235,000</u>

At December 31, 2016, the Organization has approximately \$9,180,000 of federal unused operating loss carryovers available that may be applied against future taxable income. These carryovers have varying expiration dates ranging from 2029 to 2036. The Organization also has available at December 31, 2016, \$9,100,000 of state unused operating loss carryovers that may be applied against future taxable income from Minnesota, Wisconsin and Iowa. These carryovers have varying expiration dates ranging from 2017 to 2036.

**14. FAIR VALUE MEASUREMENTS**

Fair values of assets and liabilities measured on a recurring basis are as follows:

		Fair Value Measurement Inputs (see Note 2):	
	Fair Value	Level 1	Level 2
<b>December 31, 2016</b>			
<b>Assets:</b>			
Investments in securities:			
Pooled equity funds	\$ 82,343	\$ -	\$ 82,343
Certificates of deposit	4,999,715	-	4,999,715
Mutual funds	9,374,759	9,374,759	-
Catholic Community Foundation (70% equity funds, 30% fixed income funds)	17,440	-	17,440
	<u>\$ 14,474,257</u>	<u>\$ 9,374,759</u>	<u>\$ 5,099,498</u>
<b>Liabilities:</b>			
Interest rate swap agreements	<u>\$ 396,891</u>		<u>\$ 396,891</u>

(Continued)

**COMMONBOND COMMUNITIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

**14. FAIR VALUE MEASUREMENTS (Continued)**

		Fair Value Measurement Inputs (see Note 2):	
	Fair Value	Level 1	Level 2
<b>December 31, 2015</b>			
<b>Assets:</b>			
Investments in securities:			
Pooled Equity Funds	\$ 74,697	\$ -	\$ 74,697
Mutual Funds	8,850,642	8,850,642	-
Catholic Community Foundation (70% Equity Funds, 30% Fixed Income Funds)	16,287	-	16,287
	\$ 8,941,626	\$ 8,850,642	\$ 90,984
<b>Liabilities:</b>			
Interest Rate Swap Agreements	\$ 472,585		\$ 472,585

The Organization had no assets or liabilities measured with level 3 inputs. The Organization did not change its methodology for measuring the fair values of assets and liabilities measured on a recurring basis from 2015.

**15. ENDOWMENT**

The Organization has donor restricted endowment funds established for the purpose of providing income to support Advantage Services. Net assets of the endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. The Board of Directors of the Organization has interpreted the State's Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, CommonBond Communities classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund, and (d) Capital Campaign gifts designated as Greatest Need by the donors and re-designated by the Board of Directors.

(Continued)

**COMMONBOND COMMUNITIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

**15. ENDOWMENT (Continued)**

The remaining portion of the donor-restricted endowment funds that are not classified in permanently restricted net assets are classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

The Organization's endowment investment policy is focused on preservation of capital. All amounts are invested in a mix of fixed income and equity funds.

The following is a summary of endowment funds by net asset class:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Endowment</u>
December 31, 2014	\$ -	\$ 1,764,878	\$ 5,877,648	\$ 7,642,526
Contributions	-	-	92,223	92,223
Greatest Need designations	-	-	1,217,506	1,217,506
Investment fees	-	(29,171)	-	(29,171)
Interest and dividends	-	195,477	-	195,477
Net depreciation (realized and unrealized)	-	(226,737)	-	(226,737)
	<hr/>	<hr/>	<hr/>	<hr/>
December 31, 2015	-	1,704,447	7,187,377	8,891,824
Contributions	-	-	26,072	26,072
Greatest Need designations	-	-	273,340	273,340
Investment fees	-	(18,738)	-	(18,738)
Interest and dividends	-	186,078	-	186,078
Net appreciation (realized and unrealized)	-	407,068	-	407,068
Earnings released	-	(362,956)	-	(362,956)
	<hr/>	<hr/>	<hr/>	<hr/>
December 31, 2016	<u>\$ -</u>	<u>\$ 1,915,899</u>	<u>\$ 7,486,789</u>	<u>\$ 9,402,688</u>

Endowment net assets consist of:

	<u>2016</u>	<u>2015</u>
Contributions receivable, net	\$ 10,489	\$ 24,895
Investments held for endowment	9,392,199	8,866,929
	<hr/>	<hr/>
	<u>\$ 9,402,688</u>	<u>\$ 8,891,824</u>

(Continued)



**COMMONBOND COMMUNITIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

**16. COMMERCIAL LEASES**

CommonBond Communities and affiliates lease commercial space to tenants under month to month and long-term leases. The long-term leases expire between 2019 and 2027.

Rent revenue received under these commercial leases was \$178,397 and \$117,459 in 2016 and 2015, respectively.

Future minimum lease payments are as follows:

2017	\$	177,391
2018		170,291
2019		147,705
2020		134,142
2021		129,304
Thereafter		<u>161,806</u>
	\$	<u>920,639</u>

**17. RETIREMENT PLAN**

The Organization has a defined contribution retirement 401(k) plan under which eligible employees may elect to have pre-tax payroll deferrals of up to 100% of qualified compensation contributed to the plan. The Organization makes matching contributions equal to 100% of the first 1% of compensation contributed and 50% of the next 5% of compensation contributed.

The Organization's matching retirement plan contributions were \$441,635 in 2016 and \$400,440 in 2015.

**18. DEFERRED COMPENSATION OBLIGATION**

The Organization has a deferred compensation agreement with a key employee. The agreement allows for employee deferrals and also for employer contributions at the discretion of the Board of Directors. No additional contributions are allowed. No contributions were made during 2016 and 2015. As of December 31, 2016 and 2015, investments for the deferred compensation obligation consist of pooled equity funds.

(Continued)

## COMMONBOND COMMUNITIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

#### 19. COMMITMENTS, CONTINGENCIES AND CONCENTRATIONS

**Government Sponsored Housing Programs** – The Organization participates in federal and state housing programs. These housing programs require the properties to be maintained as affordable housing and place operating restrictions on the properties for periods of 15 to 55 years.

The Organization's participation in these programs is contingent on its ability to maintain compliance with applicable requirements during the compliance periods. Failure to maintain compliance with these programs could result in refunding amounts to the government or recapture of previously taken tax credits plus interest, which would require paying refunds to investors.

The Organization has received project development funding from government agencies subject to contingent repayment terms. These grants and forgivable loans were used for construction of properties. If the Organization is not in compliance during the term of these agreements (2 - 40 years), they are repayable. It is management's intention to maintain compliance for the terms of these agreements.

The Organization participates in the IRC Section 42 housing tax credit program. As part of the program the Organization makes guarantees to the investor limited partners and members. These guarantees include completion of construction, funding of operating deficits, and the amount of tax credits and return of capital contributed by the investors.

**Commitments** – As of December 31, 2016, the Organization has outstanding construction contracts with companies related to several housing developments. The contracts totaled approximately \$49,000,000 of which \$34,100,000 was incurred prior to December 31, 2016.

**Off Balance Sheet Risks** – As part of its real estate development work, CommonBond Communities issues letters of credit to housing agencies, investors and financial institutions to ensure its performance. At December 31, 2016, letters of credit of approximately \$2,643,000 have been issued. No amounts have been drawn on the letters of credit at December 31, 2016. The letters of credit expire at various dates through December 2017.

As general partner, the Organization may be contingently liable for certain recourse debts of the partnerships in the case of default.

**Legal Actions** – During the course of operations, the Organization is a party to various legal actions. As of December 31, 2016, the Organization does not anticipate that any current legal actions will have a material effect on its financial position or changes in net assets.

**Concentrations** – The Housing Communities' primary assets are apartment properties concentrated in the Minneapolis/Saint Paul, Minnesota multi-family and commercial real estate market.

(Continued)

## COMMONBOND COMMUNITIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

The properties operate in heavily regulated environments. The operations of the properties are subject to the administrative directives, rules, and regulations of federal, state, and local regulatory agencies, including, but not limited to, the Minnesota Housing Finance Agency (MHFA) and the U.S. Department of Housing and Urban Development (HUD). Such administrative directives, rules, and regulations are subject to change by an act of Congress or an administrative change mandated by MHFA or HUD. Such changes may occur with little notice or inadequate funding to pay for the related cost, including the additional administrative burden, to comply with a change.

**Concentrations – Credit Risks** – The Organization places its cash with several financial institutions which are insured by the Federal Deposit Insurance Corporation. Although the amount on deposit in these accounts exceeds the federally insured limit, the Organization has never experienced any losses. It is the Organization’s policy to monitor the financial strength of the banks that hold its deposits on an ongoing basis. Management believes it is not exposed to any significant credit risk on such accounts.

#### 20. DECONSOLIDATION OF AFFILIATE

The Seward Towers Corporation (the Corporation) was formed as a nonprofit corporation to provide long-term affordable housing. The Corporation was previously consolidated as a Housing Community due to control by election of board members, and an economic interest through the property management agreement. The property management agreement was terminated when the apartments were sold to an affiliated Housing Community on January 14, 2016, at which time the Corporation was deconsolidated.

As of the date of deconsolidation, the assets and liabilities of the Corporation were as follows:

Property and equipment, net	\$ 13,543,873
Cash	1,585,574
Reserves and Escrows	3,121,007
Receivables	61,841
Prepaid expenses	178,644
Total assets	<u>18,490,939</u>
Debt	18,711,203
Debt issuance costs	(492,469)
Accrued interest	1,492,565
Accounts payable and other accrued expenses	844,309
Total liabilities	<u>20,555,608</u>
Excess liabilities	<u>\$ (2,064,669)</u>

(Continued)

## **COMMONBOND COMMUNITIES**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

#### **21. RELATED PARTY TRANSACTIONS**

Various members on the Board of Directors are in positions of influence at donor organizations.

#### **22. SUBSEQUENT EVENTS**

The Organization has acquired or entered into purchase agreements for four Housing Communities totaling approximately \$25,000,000. The acquisitions are expected to be financed by approximately \$23 million of long-term debt, \$2 million of cash.

Management has evaluated subsequent events through May 11, 2017, the date on which the financial statements were available for issue, and identified no further significant events or transactions to disclose.

## **SUPPLEMENTARY INFORMATION**

**COMMONBOND COMMUNITIES**  
**CONSOLIDATING STATEMENT OF FINANCIAL POSITION**  
**DECEMBER 31, 2016**  
**(With Comparative Totals for 2015)**

	2016							2015	
	CommonBond Communities	CommonBond Housing	CommonBond Others	Corporate Intercompany Eliminations	Corporate Subtotal	Consolidated Housing Communities	Eliminations		Total
<b>ASSETS</b>									
<b>CURRENT ASSETS:</b>									
Cash and Cash Equivalents	\$ 12,048,689	\$ 1,287,750	\$ 306,504	\$ -	\$ 13,642,943	\$ -	\$ -	\$ 13,642,943	\$ 14,770,362
Temporarily Restricted Cash	893,912	-	-	-	893,912	11,537,118	-	12,431,030	12,762,499
Certificates of Deposit	4,999,715	-	-	-	4,999,715	-	-	4,999,715	-
Accounts Receivable	849,497	591,287	-	-	1,440,784	1,653,504	(728,599)	2,365,689	2,086,596
Accrued Developer Fee Receivable	2,768,041	-	99,500	-	2,867,541	-	(2,866,776)	765	6,800
Contributions Receivable	438,325	-	5,500	-	443,825	-	-	443,825	429,034
Notes Receivable	20,966	-	-	-	20,966	130,683	(151,649)	-	-
Prepaid Expenses	14,374	25,110	9,009	-	48,493	573,346	-	621,839	330,084
Total Current Assets	<u>22,033,519</u>	<u>1,904,147</u>	<u>420,513</u>	<u>-</u>	<u>24,358,179</u>	<u>13,894,651</u>	<u>(3,747,024)</u>	<u>34,505,806</u>	<u>30,385,375</u>
<b>PROPERTY AND EQUIPMENT:</b>									
Property and Equipment, Net	<u>785,323</u>	<u>65,166</u>	<u>3,926,229</u>	<u>-</u>	<u>4,776,718</u>	<u>511,224,845</u>	<u>(51,085,618)</u>	<u>464,915,945</u>	<u>375,293,380</u>
<b>OTHER ASSETS:</b>									
Contributions Receivable - Long-Term	-	-	4,989	-	4,989	-	-	4,989	9,967
Notes Receivable - Long-Term	21,740,880	-	-	-	21,740,880	781,079	(22,101,959)	420,000	420,000
Interest Receivable	579,833	-	-	-	579,833	63,124	(642,957)	-	-
Restricted Escrows and Reserves	325,000	-	17,793	-	342,793	65,334,916	-	65,677,709	37,143,879
Deferred Charges, Net	-	-	-	-	-	1,039,262	-	1,039,262	895,608
Investments in Partnerships and LLC's	15,947,317	393,000	1,253,946	(1,008,163)	16,586,100	3,059,186	(19,618,054)	27,232	12,684
Investment - HPIEx	-	177,632	-	-	177,632	-	-	177,632	177,632
Investments Held for Deferred Compensation Obligation	-	82,343	-	-	82,343	-	-	82,343	74,697
Investments Held for Endowment:									
Restricted by Donors	-	-	7,476,300	-	7,476,300	-	-	7,476,300	7,162,482
Accumulated Earnings	-	-	1,915,899	-	1,915,899	-	-	1,915,899	1,704,447
Intercompany Balances	10,156,110	(6,670,770)	(3,485,340)	-	-	-	-	-	-
Total Other Assets	<u>48,749,140</u>	<u>(6,017,795)</u>	<u>7,183,587</u>	<u>(1,008,163)</u>	<u>48,906,769</u>	<u>70,277,567</u>	<u>(42,362,970)</u>	<u>76,821,366</u>	<u>47,601,396</u>
Total Assets	<u>\$ 71,567,982</u>	<u>\$ (4,048,482)</u>	<u>\$ 11,530,329</u>	<u>\$ (1,008,163)</u>	<u>\$ 78,041,666</u>	<u>\$ 595,397,063</u>	<u>\$ (97,195,612)</u>	<u>\$ 576,243,117</u>	<u>\$ 453,280,151</u>

See Independent Auditor's Report.

**COMMONBOND COMMUNITIES**  
**CONSOLIDATING STATEMENT OF FINANCIAL POSITION**  
**DECEMBER 31, 2016**  
**(With Comparative Totals for 2015)**

	2016								2015
	CommonBond Communities	CommonBond Housing	CommonBond Others	Corporate Intercompany Eliminations	Corporate Subtotal	Consolidated Housing Communities	Eliminations	Total	
<b>LIABILITIES AND NET ASSETS</b>									
<b>CURRENT LIABILITIES:</b>									
Current Portion of Long-Term Debt	\$ 779,803	\$ -	\$ -	\$ -	\$ 779,803	\$ 2,604,734	\$ (151,649)	\$ 3,232,888	\$ 3,163,405
Current Construction Notes	-	-	-	-	-	-	-	-	5,888,814
Lines of Credit	250,000	-	-	-	250,000	-	-	250,000	250,000
Construction Payable	-	-	-	-	-	7,101,345	(399,313)	6,702,032	4,137,982
Accounts Payable	109,018	271,748	31,151	-	411,917	6,399,263	(4,324,893)	2,486,287	2,416,252
Accrued Expenses	461,181	569,633	13,203	-	1,044,017	17,677,591	(8,794,317)	9,927,291	7,054,098
Accrued Interest	190,827	-	-	-	190,827	1,800,812	(671,726)	1,319,913	983,850
Total Current Liabilities	<u>1,790,829</u>	<u>841,381</u>	<u>44,354</u>	<u>-</u>	<u>2,676,564</u>	<u>35,583,745</u>	<u>(14,341,898)</u>	<u>23,918,411</u>	<u>23,894,401</u>
<b>LONG-TERM LIABILITIES:</b>									
Long-Term Debt, net	14,062,163	-	1,659,941	(1,659,941)	14,062,163	311,527,793	(73,275,105)	252,314,851	186,841,152
Long-Term Construction Notes, net	-	-	-	-	-	47,363,502	-	47,363,502	6,150,161
Accrued Interest	-	-	332,738	(332,738)	-	13,277,866	(7,144,491)	6,133,375	8,304,447
Interest Rate Swaps	-	-	-	-	-	396,891	-	396,891	472,585
Deferred Compensation Obligation	-	82,343	-	-	82,343	-	-	82,343	74,697
Due to Partners	-	-	-	-	-	536,268	-	536,268	543,393
Other Liabilities	-	-	-	-	-	3,628,367	(3,331,331)	297,036	296,966
Deferred Grants	-	-	-	-	-	10,803,518	(10,803,518)	-	-
Total Long-Term Liabilities	<u>14,062,163</u>	<u>82,343</u>	<u>1,992,679</u>	<u>(1,992,679)</u>	<u>14,144,506</u>	<u>387,534,205</u>	<u>(94,554,445)</u>	<u>307,124,266</u>	<u>202,683,401</u>
Total Liabilities	<u>15,852,992</u>	<u>923,724</u>	<u>2,037,033</u>	<u>(1,992,679)</u>	<u>16,821,070</u>	<u>423,117,950</u>	<u>(108,896,343)</u>	<u>331,042,677</u>	<u>226,577,802</u>
<b>NET ASSETS:</b>									
Unrestricted:									
Undesignated Operating Fund	38,479,498	(4,972,206)	90,608	984,516	34,582,416	-	(11,764,514)	22,817,902	24,037,407
Undesignated Housing Communities	-	-	-	-	-	2,774,940	-	2,774,940	(6,959,351)
Non-Controlling Interests	-	-	-	-	-	109,200,100	(34,710)	109,165,390	99,328,795
Total Unrestricted Net Assets	<u>38,479,498</u>	<u>(4,972,206)</u>	<u>90,608</u>	<u>984,516</u>	<u>34,582,416</u>	<u>111,975,040</u>	<u>(11,799,224)</u>	<u>134,758,232</u>	<u>116,406,851</u>
Temporarily Restricted	15,821,492	-	1,915,899	-	17,737,391	60,304,073	23,499,955	101,541,419	101,878,121
Permanently Restricted	1,414,000	-	7,486,789	-	8,900,789	-	-	8,900,789	8,417,377
Total Net Assets	<u>55,714,990</u>	<u>(4,972,206)</u>	<u>9,493,296</u>	<u>984,516</u>	<u>61,220,596</u>	<u>172,279,113</u>	<u>11,700,731</u>	<u>245,200,440</u>	<u>226,702,349</u>
Total Liabilities and Net Assets	<u>\$ 71,567,982</u>	<u>\$ (4,048,482)</u>	<u>\$ 11,530,329</u>	<u>\$ (1,008,163)</u>	<u>\$ 78,041,666</u>	<u>\$ 595,397,063</u>	<u>\$ (97,195,612)</u>	<u>\$ 576,243,117</u>	<u>\$ 453,280,151</u>

See Independent Auditor's Report.

**COMMONBOND COMMUNITIES**  
**CONSOLIDATING STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**  
**(With Comparative Totals for 2015)**

	2016								2015
	CommonBond Communities	CommonBond Housing	CommonBond Others	Corporate Intercompany Eliminations	Corporate Subtotal	Consolidated Housing Communities	Eliminations	Total	
<b>REVENUES FROM OPERATIONS:</b>									
Contributions	\$ 3,331,219	\$ -	\$ 26,072	\$ -	\$ 3,357,291	\$ -	\$ -	\$ 3,357,291	\$ 3,165,074
In-Kind Contributions	147,803	-	-	-	147,803	1,493	-	149,296	168,064
Total Contributions	3,479,022	-	26,072	-	3,505,094	1,493	-	3,506,587	3,333,138
Government Grants - Operating	255,232	-	-	-	255,232	139,108	-	394,340	533,021
Government Grants - Construction	2,337,037	-	-	-	2,337,037	1,137,660	(784,698)	2,689,999	6,435,934
Total Government Grants	2,592,269	-	-	-	2,592,269	1,276,768	(784,698)	3,084,339	6,968,955
Fees for Services:									
Property Management	-	3,962,285	-	-	3,962,285	-	(3,826,781)	135,504	321,979
Housing Development	3,548,636	-	30,000	-	3,578,636	-	(3,578,636)	-	20,796
Advantage Services	1,675,330	-	-	-	1,675,330	-	(1,282,730)	392,600	251,088
Other	132,509	335,660	85,580	-	553,749	2,150	(254,079)	301,820	199,355
Total Fees for Services	5,356,475	4,297,945	115,580	-	9,770,000	2,150	(8,942,226)	829,924	793,218
Housing Rental and Related Revenue	38,414	-	-	-	38,414	51,436,293	(138,779)	51,335,928	48,760,525
Interest and Dividends	845,795	773	195,080	-	1,041,648	309,871	(856,384)	495,135	378,079
Other Receipts and Recoveries from Housing Communities	1,910,036	374,190	174,878	-	2,459,104	-	(2,184,115)	274,989	-
Miscellaneous	243,291	131,335	665,212	(587,459)	452,379	-	(52,329)	400,050	372,540
Total Housing and Other Revenue	3,037,536	506,298	1,035,170	(587,459)	3,991,545	51,746,164	(3,231,607)	52,506,102	49,511,144
Total Revenues from Operations	14,465,302	4,804,243	1,176,822	(587,459)	19,858,908	53,026,575	(12,958,531)	59,926,952	60,606,455
<b>EXPENSES FROM OPERATIONS:</b>									
Program Services:									
Property Management	393,658	3,261,034	147,192	-	3,801,884	64,797,543	(8,153,488)	60,445,939	54,826,287
Housing Development	390,409	1,263,452	145,676	(81,331)	1,718,206	106,145	(27,937)	1,796,414	1,945,626
Advantage Services	3,885,994	390,213	151,653	-	4,427,860	1,544,090	(1,487,432)	4,484,518	4,474,172
Asset Management	31,727	371,202	16,066	-	418,995	-	-	418,995	583,322
Community Engagement	49,609	18,149	2,530	-	70,288	-	-	70,288	68,280
Total Program Services	4,751,397	5,304,050	463,117	(81,331)	10,437,233	66,447,778	(9,668,857)	67,216,154	61,897,687
Supporting Services:									
General and Administrative	1,234,789	356,505	180,832	(587,459)	1,184,667	-	-	1,184,667	968,147
Fund Development	1,594,184	83,941	43,317	-	1,721,442	-	-	1,721,442	1,570,682
Total Supporting Services	2,828,973	440,446	224,149	(587,459)	2,906,109	-	-	2,906,109	2,538,829
Total Expenses from Operations	7,580,370	5,744,496	687,266	(668,790)	13,343,342	66,447,778	(9,668,857)	70,122,263	64,436,516
<b>CHANGE IN NET ASSETS BEFORE OTHER INCOME AND EXPENSE</b>	6,884,932	(940,253)	489,556	81,331	6,515,566	(13,421,203)	(3,289,674)	(10,195,311)	(3,830,061)
<b>OTHER INCOME AND (EXPENSE):</b>									
Principal and Accrued Interest Forgiven	50,000	-	-	-	50,000	6,994,990	-	7,044,990	400,000
Loss on Disposal of Property and Equipment	-	-	-	-	-	(3,114,243)	1,751,071	(1,363,172)	(961,797)
Residual Receipts Recapture	-	-	-	-	-	-	-	-	(551,878)
Gain on Deconsolidation of Affiliate	-	-	-	-	-	2,064,669	-	2,064,669	-
Gains (Losses) on Investments, Net	(15,540)	-	407,068	-	391,528	75,694	-	467,222	(209,106)
Gains (Losses) from Partnerships	(123,782)	-	(329,513)	-	(453,295)	(14,277)	467,572	-	-
Total Other Income and (Expense)	(89,322)	-	77,555	-	(11,767)	6,006,833	2,218,643	8,213,709	(1,322,781)
<b>CHANGE IN NET ASSETS</b>	6,795,610	(940,253)	567,111	81,331	6,503,799	(7,414,370)	(1,071,031)	(1,981,602)	(5,152,842)
Non-Controlling Interests in Losses	-	-	-	-	-	10,065,413	-	10,065,413	8,107,166
<b>CHANGE IN NET ASSETS AFTER NON-CONTROLLING INTERESTS</b>	\$ 6,795,610	\$ (940,253)	\$ 567,111	\$ 81,331	\$ 6,503,799	\$ 2,651,043	\$ (1,071,031)	\$ 8,083,811	\$ 2,954,324

See Independent Auditor's Report.



**COMMONBOND COMMUNITIES**  
**CONSOLIDATING STATEMENT OF CHANGES IN NET ASSETS**  
**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

	CommonBond Communities	CommonBond Housing	CommonBond Others	Corporate Intercompany Eliminations	Corporate Subtotal	Consolidated Housing Communities	Eliminations	Total
<b>Balance, December 31, 2014</b>	\$ 40,819,161	\$ (2,714,199)	\$ 7,844,585	\$ 724,879	\$ 46,674,426	\$ 145,161,150	\$ 22,445,365	\$ 214,280,941
Change in Net Assets	9,228,108	(1,317,754)	(46,489)	178,506	8,042,371	(15,091,040)	1,895,827	(5,152,842)
Transfer of Capital Campaign Funds	(1,217,506)	-	1,217,506	-	-	-	-	-
Other Housing Activity:								
Capital Contributions	-	-	-	-	-	22,705,870	(4,957,465)	17,748,405
Cash Distributions	-	-	-	-	-	(389,438)	373,601	(15,837)
Syndication Costs and Other	-	-	-	-	-	(158,318)	-	(158,318)
<b>Balance, December 31, 2015</b>	<u>48,829,763</u>	<u>(4,031,953)</u>	<u>9,015,602</u>	<u>903,385</u>	<u>54,716,797</u>	<u>152,228,224</u>	<u>19,757,328</u>	<u>226,702,349</u>
Change in Net Assets	6,795,610	(940,253)	567,111	81,331	6,503,799	(7,414,370)	(1,071,031)	(1,981,602)
Transfer of Capital Campaign Funds	(273,339)	-	273,339	-	-	-	-	-
Endowment Appropriation for Advantage Services	362,956	-	(362,956)	-	-	-	-	-
Other Housing Activity:								
Capital Contributions	-	-	200	(200)	-	28,531,825	(7,694,266)	20,837,559
Cash Distributions	-	-	-	-	-	(815,666)	708,700	(106,966)
Syndication Costs and Other	-	-	-	-	-	(250,900)	-	(250,900)
<b>Balance, December 31, 2016</b>	<u>\$ 55,714,990</u>	<u>\$ (4,972,206)</u>	<u>\$ 9,493,296</u>	<u>\$ 984,516</u>	<u>\$ 61,220,596</u>	<u>\$ 172,279,113</u>	<u>\$ 11,700,731</u>	<u>\$ 245,200,440</u>
Reconciliation of 2016 Net Assets:								
Non-controlling Interests:								
Beginning of Year	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 99,363,505	\$ (34,710)	\$ 99,328,795
Interest in Limited Partnership Losses	-	-	-	-	-	(10,065,413)	-	(10,065,413)
Capital Contributions	-	-	-	-	-	20,837,559	-	20,837,559
Cash Distribution	-	-	-	-	-	(106,966)	-	(106,966)
Syndication Costs	-	-	-	-	-	(250,900)	-	(250,900)
Transfer	-	-	-	-	-	(577,685)	-	(577,685)
End of Year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>109,200,100</u>	<u>(34,710)</u>	<u>109,165,390</u>
Controlling Interests:								
Beginning of Year	48,829,763	(4,031,953)	9,015,602	903,385	54,716,797	52,864,719	19,792,038	127,373,554
Change in Net Assets	6,795,610	(940,253)	567,111	81,331	6,503,799	2,651,043	(1,071,031)	8,083,811
Transfer	(273,339)	-	273,339	-	-	577,685	-	577,685
Endowment appropriation for Advantage Services	362,956	-	(362,956)	-	-	-	-	-
Capital Contributions	-	-	200	(200)	-	7,694,266	(7,694,266)	-
Cash Distributions	-	-	-	-	-	(708,700)	708,700	-
End of Year	<u>55,714,990</u>	<u>(4,972,206)</u>	<u>9,493,296</u>	<u>984,516</u>	<u>61,220,596</u>	<u>63,079,013</u>	<u>11,735,441</u>	<u>136,035,050</u>
	<u>\$ 55,714,990</u>	<u>\$ (4,972,206)</u>	<u>\$ 9,493,296</u>	<u>\$ 984,516</u>	<u>\$ 61,220,596</u>	<u>\$ 172,279,113</u>	<u>\$ 11,700,731</u>	<u>\$ 245,200,440</u>

See Independent Auditor's Report.

**COMMONBOND COMMUNITIES  
SCHEDULE OF FINANCIAL POSITION  
NEIGHBORWORKS RESTRICTED FUNDS  
DECEMBER 31, 2016**

ASSETS

Current assets:		
Cash		\$ 325,000
Total current assets		<u>325,000</u>
Housing Communities:		
CB Florist Gardens, LLC (Milwaukee, WI)	314,096	
Brewery Point Apartments, LLC (Milwaukee, WI)	420,000	
CBC Falls Meadowridge (Little Falls, MN)	35,627	
Bloomsbury Village LLLP (Des Moines, IA)	300,000	
Greenvale Place of Northfield, Inc. (Northfield, MN)	19,277	
Total assets		<u><u>\$ 1,414,000</u></u>

LIABILITIES AND NET ASSETS

Net assets:		
Permanently restricted		<u>\$ 1,414,000</u>
Total liabilities and net assets		<u><u>\$ 1,414,000</u></u>

**STATEMENT OF ACTIVITIES  
NEIGHBORWORKS RESTRICTED FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2016**

Net assets – beginning of year	<u>\$ 1,230,000</u>
Additions:	
Capital grants	500,000
Releases	<u>(316,000)</u>
Change in net assets	<u>184,000</u>
Net assets – end of year	<u><u>\$ 1,414,000</u></u>

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