

COMMONBOND COMMUNITIES

**CONSOLIDATED FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION**

FOR THE YEAR ENDED DECEMBER 31, 2017

COMMONBOND COMMUNITIES

CONSOLIDATED FINANCIAL STATEMENTS WITH SUPPLEMENTARY INFORMATION

For the Year Ended December 31, 2017

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Mahoney Ulbrich Christiansen Russ P.A.

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
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, 2017, 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, 2017, 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

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information shown on pages 37 to 40 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 41 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 audit 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 10, 2018 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 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 CommonBond Communities and affiliates' 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.

May 10, 2018

*Mahoney Ulbrich
Christiansen Russ P.A.*

COMMONBOND COMMUNITIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2017

ASSETS

CURRENT ASSETS:

Cash and Cash Equivalents	\$ 5,861,973
Restricted Cash	19,245,621
Certificates of Deposit	5,547,546
Accounts Receivable, Net	2,714,796
Contributions Receivable	199,245
Prepaid Expenses	624,561
Total Current Assets	<u>34,193,742</u>

PROPERTY AND EQUIPMENT:

Property and Equipment, Net	<u>498,945,751</u>
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OTHER ASSETS:

Notes Receivable - Long-Term	420,000
Other Receivables	460,945
Restricted Cash for Long-Term Purposes	7,050,716
Restricted Escrows and Reserves	40,259,207
Deferred Charges, Net	1,007,445
Investments in Partnerships and LLCs	27,232
Investment - HPIEx	177,632
Investments Held for Deferred Compensation Obligation	94,541
Investments Held for Endowment:	
Restricted by Donors	7,504,598
Accumulated Earnings	3,049,406
Board Designated	713,698
Total Other Assets	<u>60,765,420</u>

Total Assets	<u>\$ 593,904,913</u>
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See Accompanying Notes to Consolidated Financial Statements.

COMMONBOND COMMUNITIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2017

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:

Current Portion of Long-Term Debt	\$ 3,852,452
Lines of Credit	250,000
Construction Costs Payable	1,975,954
Accounts Payable	3,525,254
Accrued Expenses	11,264,477
Accrued Interest	1,248,627
Total Current Liabilities	<u>22,116,764</u>

LONG-TERM LIABILITIES:

Long-Term Debt, net	281,117,188
Construction Notes Payable	15,240,693
Accrued Interest	7,760,338
Interest Rate Swaps	327,176
Deferred Compensation Obligation	94,541
Due to Partners	541,268
Other Liabilities	305,461
Total Long-Term Liabilities	<u>305,386,665</u>

Total Liabilities	<u>327,503,429</u>
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NET ASSETS:

Without Donor Restrictions:	
Undesignated:	
Operating Fund	21,719,793
Housing Communities - Controlling Interests	1,322,303
Housing Communities - Noncontrolling Interests	129,040,236
Board Designated	3,648,691
Total Without Donor Restrictions	<u>155,731,023</u>
With Donor Restrictions	<u>110,670,461</u>
Total Net Assets	<u>266,401,484</u>

Total Liabilities and Net Assets	<u>\$ 593,904,913</u>
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See Accompanying Notes to Consolidated Financial Statements.

COMMONBOND COMMUNITIES

CONSOLIDATED STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2017

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES FROM OPERATIONS:			
Contributions	\$ 3,051,330	\$ 794,773	\$ 3,846,103
In-Kind Contributions	2,007,303	-	2,007,303
Released from Restrictions	2,117,144	(2,117,144)	-
Total Contributions	<u>7,175,777</u>	<u>(1,322,371)</u>	<u>5,853,406</u>
Government Grants - Operating	327,677	-	327,677
Government Grants - Construction	559,627	-	559,627
Total Government Grants	<u>887,304</u>	<u>-</u>	<u>887,304</u>
Fees for Services:			
Property Management	720,986	-	720,986
Housing Development	68,432	-	68,432
Advantage Services	315,283	-	315,283
Other	131,484	-	131,484
Total Fees for Services	<u>1,236,185</u>	<u>-</u>	<u>1,236,185</u>
Housing Communities Rental and Related Revenue	55,484,191	-	55,484,191
Investment Income	311,717	-	311,717
Miscellaneous	216,852	-	216,852
Total Housing and Other Revenue	<u>56,012,760</u>	<u>-</u>	<u>56,012,760</u>
Total Revenues from Operations	<u>65,312,026</u>	<u>(1,322,371)</u>	<u>63,989,655</u>
EXPENSES FROM OPERATIONS:			
Program Services:			
Property Operations and Management:			
Housing Communities	66,196,580	-	66,196,580
Third Party Contracts	822,252	-	822,252
Housing Development	1,799,137	-	1,799,137
Advantage Services	5,131,477	-	5,131,477
Asset Management	452,469	-	452,469
Community Engagement	37,421	-	37,421
Total Program Services	<u>74,439,336</u>	<u>-</u>	<u>74,439,336</u>
Supporting Services:			
General and Administrative	1,763,136	-	1,763,136
Fund Development	1,692,973	-	1,692,973
Total Supporting Services	<u>3,456,109</u>	<u>-</u>	<u>3,456,109</u>
Total Expenses from Operations	<u>77,895,445</u>	<u>-</u>	<u>77,895,445</u>
CHANGE IN NET ASSETS BEFORE OTHER INCOME AND EXPENSE	<u>(12,583,419)</u>	<u>(1,322,371)</u>	<u>(13,905,790)</u>
OTHER INCOME AND (EXPENSE):			
Gain (Loss) on Disposal of Property and Equipment	186,171	-	186,171
Residual Receipts Recapture	(106,975)	-	(106,975)
Endowment Investment Return, Net	-	1,550,624	1,550,624
Gains (Losses) on Investments, Net	71,366	-	71,366
Total Other Income and (Expense)	<u>150,562</u>	<u>1,550,624</u>	<u>1,701,186</u>
CHANGE IN NET ASSETS	<u>(12,432,857)</u>	<u>228,253</u>	<u>(12,204,604)</u>
Noncontrolling Interests in activities of Housing Communities	<u>13,128,179</u>	<u>-</u>	<u>13,128,179</u>
CHANGE IN NET ASSETS AFTER NONCONTROLLING INTERESTS	<u>\$ 695,322</u>	<u>\$ 228,253</u>	<u>\$ 923,575</u>

See Accompanying Notes to Consolidated Financial Statements.

COMMONBOND COMMUNITIES

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

FOR THE YEAR ENDED DECEMBER 31, 2017

	Without Donor Restrictions			With Donor Restrictions	Total
	Controlling Interests	Noncontrolling Interests	Total		
Balance, December 31, 2015	\$ 17,078,056	\$ 99,328,795	\$ 116,406,851	\$ 110,295,498	\$ 226,702,349
Change in Net Assets	7,937,101	(10,065,413)	(2,128,312)	146,710	(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)
Balance, December 31, 2016	\$ 25,592,842	\$ 109,165,390	\$ 134,758,232	\$ 110,442,208	\$ 245,200,440
Change in Net Assets	695,322	(13,128,179)	(12,432,857)	228,253	(12,204,604)
Assignment of Noncontrolling Interests to Controlling Interest	402,623	(402,623)	-	-	-
Other Housing Activity:					
Capital Contributions	-	33,588,993	33,588,993	-	33,588,993
Cash Distributions	-	(33,135)	(33,135)	-	(33,135)
Syndication Costs and Other	-	(150,210)	(150,210)	-	(150,210)
Balance, December 31, 2017	<u>\$ 26,690,787</u>	<u>\$ 129,040,236</u>	<u>\$ 155,731,023</u>	<u>\$ 110,670,461</u>	<u>\$ 266,401,484</u>

See Accompanying Notes to Consolidated Financial Statements.

COMMONBOND COMMUNITIES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2017

	PROGRAM SERVICES								SUPPORTING SERVICES				
	Property Operations and Management		Housing Development	Advantage Services	Asset Management	Community Engagement	Housing Communities	Eliminations	Total	General and Administrative	Fund Development	Eliminations	Total
	Housing Communities	Third Party Contracts											
Salaries, Taxes and Fringes:													
Salaries	\$ 1,999,413	\$ 588,289	\$ 1,135,837	\$ 3,232,831	\$ 322,435	\$ 25,306	\$ 6,781,812	\$ -	\$ 14,085,923	\$ 869,345	\$ 771,691	\$ -	\$ 15,726,959
Payroll Taxes and Fringes	382,595	109,926	216,289	639,617	61,771	4,552	1,727,124	-	3,141,874	166,919	147,982	-	3,456,775
Total Salaries, Taxes and Fringes	<u>2,382,008</u>	<u>698,215</u>	<u>1,352,126</u>	<u>3,872,448</u>	<u>384,206</u>	<u>29,858</u>	<u>8,508,936</u>	<u>-</u>	<u>17,227,797</u>	<u>1,036,264</u>	<u>919,673</u>	<u>-</u>	<u>19,183,734</u>
Consulting Services	36,881	6,200	20,042	103,551	4,444	156	-	-	171,274	285,973	140,828	-	598,075
Office Supplies and Printing	160,085	46,242	89,814	185,388	26,114	1,391	-	-	509,034	87,603	31,246	-	627,883
Telephone	31,565	9,188	17,573	18,806	5,206	168	-	-	82,506	12,544	4,050	-	99,100
Occupancy	21,022	-	-	3,000	-	-	-	(24,022)	-	559,760	-	(559,760)	-
Travel	81,685	26,640	47,945	107,562	13,054	1,478	-	-	278,364	36,190	25,185	-	339,739
Education and Training	27,470	7,937	15,611	51,061	4,414	372	-	-	106,865	12,184	11,660	-	130,709
In-Kind Expense	-	-	-	-	-	-	-	-	-	-	182,303	-	182,303
Program Contracts and Supplies	-	-	40,400	111,436	-	-	-	-	151,836	-	-	-	151,836
Bad Debt (Recoveries)	(49,989)	-	141,170	-	-	-	484,233	(276,284)	299,130	-	(7,100)	-	292,030
Special Event Expense	-	-	-	-	-	-	-	-	-	-	231,143	-	231,143
Miscellaneous	21,251	6,812	18,121	47,447	3,346	489	-	-	97,466	10,218	19,763	-	127,447
Repairs and Maintenance	56,756	16,708	33,317	185,889	8,756	1,409	9,889,941	(20,571)	10,172,205	30,553	43,814	-	10,246,572
Administrative Expense	-	-	-	-	-	-	7,660,822	(4,682,396)	2,978,426	-	-	-	2,978,426
Advantage Service Fees	-	-	-	-	-	-	1,554,355	(1,499,888)	54,467	-	-	-	54,467
Utilities Expense	-	-	-	-	-	-	5,295,643	-	5,295,643	-	-	-	5,295,643
Insurance Expense	-	-	-	-	-	-	1,935,333	-	1,935,333	41,622	-	-	1,976,955
Real Estate Taxes	-	-	-	-	-	-	5,367,731	-	5,367,731	-	-	-	5,367,731
Depreciation and Amortization	-	-	-	-	-	-	20,256,801	(1,824,627)	18,432,174	187,604	-	-	18,619,778
Interest and Other Finance Charges	24,426	4,310	100,327	390,422	2,929	2,100	12,890,159	(2,135,588)	11,279,085	22,381	90,408	-	11,391,874
	2,793,160	822,252	1,876,446	5,077,010	452,469	37,421	73,843,954	(10,463,376)	74,439,336	2,322,896	1,692,973	(559,760)	77,895,445
Housing Communities by Function	72,226,220	-	63,379	1,554,355	-	-	(73,843,954)	-	-	-	-	-	-
Eliminations by Function	(8,822,800)	-	(140,688)	(1,499,888)	-	-	-	10,463,376	-	(559,760)	-	559,760	-
	<u>\$ 66,196,580</u>	<u>\$ 822,252</u>	<u>\$ 1,799,137</u>	<u>\$ 5,131,477</u>	<u>\$ 452,469</u>	<u>\$ 37,421</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 74,439,336</u>	<u>\$ 1,763,136</u>	<u>\$ 1,692,973</u>	<u>\$ -</u>	<u>\$ 77,895,445</u>

See Accompanying Notes to Consolidated Financial Statements.

COMMONBOND COMMUNITIES

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2017

CASH FLOWS FROM OPERATING ACTIVITIES:

Change in Net Assets	\$ (12,204,604)
Adjustments to Reconcile Change in Net Assets to Net Cash From Operating Activities:	
Depreciation	18,447,510
Amortization	967,517
Grants Used for Construction	(559,627)
Gains on Investments	(1,426,018)
Reinvested Income on Investments and Endowment	(208,170)
Donated Property and Equipment	(1,825,000)
Gain on Sale of Easement	(701,295)
Loss on Disposal of Property	515,124
Permanently Restricted Contributions	(21,828)
Contributions Restricted for Housing Opportunity Fund	(152,000)
Changes in Operating Assets and Liabilities:	
Accounts and Notes Receivable	(208,412)
Contributions Receivable	249,569
Prepaid Expenses	(2,722)
Accounts Payable and Accrued Expenses	2,388,351
Accrued Interest	1,555,677
Other Liabilities and Deferred Grants	8,425
Net Cash From Operating Activities	<u>6,822,497</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchase of Property and Equipment	(55,913,273)
Proceeds from Sale of Property and Equipment	120,175
Purchase of Investments Held for Endowment	(741,015)
Proceeds from Sale of Investments Held for Endowment	416,136
Purchase of Certificates of Deposit	(546,180)
Change in Restricted Reserves and Cash for Long-Term Purposes	<u>24,312,970</u>
Net Cash From Investing Activities	<u>(32,351,187)</u>

See Accompanying Notes to Consolidated Financial Statements.

COMMONBOND COMMUNITIES

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2017

CASH FLOWS FROM FINANCING ACTIVITIES:	
Proceeds from Long-Term Debt and Construction Notes	\$ 53,537,087
Payments on Long-Term Debt and Construction Notes	(55,997,798)
Contributions Restricted for Endowment	21,828
Contributions Restricted for Housing Opportunity Fund	152,000
Grants Received for Construction	559,627
Change in Due to Partners	5,000
Payment of Deferred Charges	(1,175,897)
Capital Contributions - Housing Communities	33,588,993
Distributions - Housing Communities	(33,135)
Syndication Costs - Housing Communities	(150,210)
Net Cash From Financing Activities	<u>30,507,495</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	4,978,805
Cash and Cash Equivalents - Beginning of Year	<u>20,128,789</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 25,107,594</u></u>
RECONCILIATION TO THE STATEMENT OF FINANCIAL POSITION:	
Cash and Cash Equivalents	\$ 5,861,973
Restricted Cash	19,245,621
Total Cash and Cash Equivalents	<u><u>\$ 25,107,594</u></u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:	
Interest Paid	\$ 8,517,156
Noncash Investing and Financing Activities:	
Additions to Property and Equipment Included in Liabilities	1,975,954
Sale of Easement Proceeds Included in Receivables	600,875

See Accompanying Notes to Consolidated Financial Statements.

COMMONBOND COMMUNITIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2017

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 the construction or rehabilitation of rental units and also 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 6,450 affordable rental apartment and townhome units.

The Organization controls approximately 105 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 support 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

Accounting Pronouncement Adopted – FASB issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* to address the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. CommonBond Communities has adopted the pronouncement and adjusted the presentation of these statements accordingly. As a result, net assets previously reported as temporary and permanently restricted are now combined into one category called net assets with donor restrictions. The amount of such net assets did not change.

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, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 net assets with donor restrictions in the consolidated financial statements.

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 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 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 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 real property interests to own, develop or renovate Housing Communities. CommonBond Communities is the sole member of the companies.

(Continued)

COMMONBOND COMMUNITIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 noncontrolling 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 noncontrolling limited and general partners and members when those losses exceed the equity of the noncontrolling 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:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization's management and the board of directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

(Continued)

COMMONBOND COMMUNITIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2017

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.

Change in Accounting Principle – Cash Equivalents for Purposes of the Statement of Cash Flows – As a result of adopting ASU 2016-14, management had to evaluate the liquidity of its financial assets. Management determined that cash designated by management, the Board of Directors, or lenders for working capital should be excluded from cash equivalents in the statement of cash flows. Additionally, management determined that tax and insurance escrows that are used to pay Housing Communities’ real estate taxes and insurance premiums within one year of the statement of financial position date should be included in cash equivalents on the statement of cash flows. Cash and cash equivalents for purposes of the statement of cash flows at December 31, 2016 has been restated as follows:

Cash and cash equivalents as previously stated	\$ 26,073,973
Restricted cash for long-term purposes	(8,561,866)
Tax and insurance escrows	<u>2,616,682</u>
Cash and cash equivalents as restated	<u>\$ 20,128,789</u>

Cash Equivalents – The Organization generally 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.

For purposes of the statement of cash flows, cash equivalents exclude escrows and reserves which are restricted for long-term purposes by organizing agreements, debt agreements, or board designations and negotiable certificates of deposit which are considered investments.

(Continued)

COMMONBOND COMMUNITIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted Cash – Corporate restricted cash (\$1,002,039) and restricted cash for long-term purposes (\$7,050,716) represent amounts received but not yet spent that are subject to donor and lender imposed restrictions.

Housing Communities' restricted cash consists of tenant security deposits, tax and insurance escrows, and operating cash restricted by organizational documents, mortgage agreements and government agencies (\$18,243,582 as of December 31, 2017).

Security deposits plus interest of \$2,097,324 are reported as a liability and included as part of the accrued expenses balance.

Investments – Investments in negotiable certificates of deposits, 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.

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, financing operating deficits, and paying debt service.

Certain Housing Communities are required to deposit excess cash flow, as defined by the U.S. Department of Housing and Urban Development (HUD), to a residual receipts reserve. HUD recaptures excess residual receipts reserves held by Section 202 and 811 Housing Communities if the residual receipts reserves exceed \$250 per unit. The 2017 consolidated statement of activities includes Residual Receipts Recapture of \$106,995.

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.

(Continued)

COMMONBOND COMMUNITIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounts Receivable – Receivables consist of amounts due from tenants under the corresponding leases and amounts due from housing regulatory agencies under approved subsidy contracts. Receivables also include working capital advances to properties in the development stage, and an installment receivable for the sale of an easement. 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 of \$144,365. Accounts receivable are written off 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. At December 31, 2017, an allowance for uncollectable promises to give of \$3,372 has been recorded. Contributions receivable are written off when, in management’s estimation, it is probable that the receivable is worthless.

Property and Equipment – Property and equipment are recorded at acquisition cost. Donated property and equipment are recorded at the fair market value as of the date of contribution. Costs to develop a property 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

When donated assets are received with donor restrictions, the Organization reports expiration of the restrictions when the donated or acquired assets are placed in service.

Deferred Charges – Deferred charges primarily represent tax credit fees incurred by the Housing Communities. These costs are amortized on a straight-line basis over the compliance period or recapture periods of the corresponding tax credits (5-15 years) and are recorded net of accumulated amortization of \$867,605 at December 31, 2017.

(Continued)

COMMONBOND COMMUNITIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2017

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, 2017, management believes that the carrying amounts of its long-lived assets have not been impaired.

Debt Issuance Costs – Debt issuance costs are amortized over the term of the related debt using the straight-line method and are reported as deductions from the face amount of the related debt. Amortization is included in interest expense.

Contributions – Contributions are recognized when the donor makes an unconditional promise to give to the Organization. Contributions are recorded when received as net assets without donor restrictions or net assets with donor restrictions depending on the existence and/or nature of any donor restrictions. Contributions are reported as net assets with donor restrictions 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 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 received with or without donor purpose restrictions.
- Capital awards which the donor requires to be held in perpetuity for capital projects. Although the initial grant amount must be held in perpetuity, proceeds on capital projects, or interest earned, over and above the corpus may be transferred to net assets without donor restrictions for furthering the Organization's 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, 2017

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 net assets with donor restrictions not subject to appropriation or expenditure, and are released from restriction 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 net assets with donor restrictions not subject to appropriation or expenditure, and are 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 net assets with donor restrictions subject to the passage of time if compliance is maintained when received and released from restriction on a straight-line basis over the 15-year compliance period.

Special Events – Special events held during 2017 generated revenue of \$920,141 included in contributions.

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.

(Continued)

COMMONBOND COMMUNITIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Functional Expenses – Expenses to provide various program and supporting activities have been summarized on a functional basis in the consolidated statements of activities. The consolidated statements of functional expenses present expenses by function and natural classification. Expenses directly attributable to a specific functional area of CommonBond Communities are reported as expenses of those functional areas while indirect costs that benefit multiple functional areas have been allocated among the various functional areas based on estimates of employee time and effort.

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 commercial rent income. Management believes CommonBond Communities did not have any uncertain tax positions for 2017.

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 2017, 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, 2017

3. AVAILABILITY AND LIQUIDITY

The Organization regularly monitors liquidity required to meet its operating needs and other commitments. CommonBond Communities has various sources of liquidity including cash and cash equivalents, restricted cash, certificates of deposit, restricted reserves, accounts, contributions, and notes receivable, and endowments.

For purposes of analyzing resources available to meet general expenditures within one year of the statement of financial position date:

- The Organization 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.
- Resources held by Housing Communities are generally limited to use for general expenditures within the individual entities of the Housing Communities, and are not available for general expenditures of the corporate entities.
- Resources designated or restricted for acquisition, development, and other capital improvements of Housing Communities are excluded from this analysis.
- The investments held for endowment are excluded from this analysis; however, the Board designated endowment and the accumulated earnings on the donor restricted endowment could be made available as directed by the Board of Directors, if necessary.
- The Organization has available lines of credit available totaling \$3,250,000 as discussed in Note 10 which are excluded from this analysis, but could be drawn upon for unanticipated liquidity needs.

At December 31, 2017, resources available for general expenditure within one year of the statement of financial position date are as follows:

	<u>Balance</u>
Current Assets	\$ 34,193,742
Less Prepaid Expenses	(624,561)
Resources available for general expenditures	<u>\$ 33,569,181</u>
Available for Corporate	\$ 13,529,471
Available for Housing Communities	20,039,710
	<u>\$ 33,569,181</u>

(Continued)

COMMONBOND COMMUNITIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2017

3. AVAILABILITY AND LIQUIDITY (Continued)

As part of the Organization's liquidity management plan, various cash and invested funds are classified into tiers which are maintained in accounts that appropriately match availability with liquidity of the assets as follows:

	Tier	Balance
Cash and Cash Equivalents:		
Corporate Operating Cash	I	\$ 4,766,168
Corporate Central Reserve	II	1,095,805
Restricted Cash:		
Corporate Donor Restricted	I	1,002,039
Housing Communities Operating Cash	I, II	13,157,572
Housing Communities Escrows	II	5,086,010
Certificates of Deposit:		
Corporate Operating Reserves	IV	5,547,546
Restricted Cash for Long-Term Purposes:		
Corporate Donor Restricted	I	386,000
Housing Opportunity Fund	I	750,013
Corporate Working Capital	I	5,914,703
Restricted Reserves and Escrows:		
Housing Communities Reserves and Escrows	III	40,259,207
Investments Held for Endowments:		
Board Designated Endowment	V	713,698
Advantage Services Endowment	V	10,554,004

Corporate Operating Cash - Cash to fund daily operations of corporate entities.

Corporate Central Reserve - Revolving loan fund designated by the Board of Directors for repair and maintenance expenses related to Housing Communities when funds are not available.

Corporate Donor Restricted - Cash restricted by donors for specific purposes.

Housing Communities Operating Cash - Cash to fund daily operations of Housing Communities.

Housing Communities Escrows - Funds held by Housing Communities for refunds of tenant security deposits and to pay annual real estate taxes, property insurance and mortgage insurance when due.

Corporate Operating Reserves - Funds held by corporate entities for operations, but not anticipated to be used within one year of the balance sheet date.

(Continued)

COMMONBOND COMMUNITIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2017

3. AVAILABILITY AND LIQUIDITY (Continued)

Housing Opportunity Fund - Revolving pool of funds held by CommonBond Housing Opportunity Fund LLC that is restricted by lenders/investors and donors for the investment in affordable, unsubsidized Housing Communities.

Corporate Working Capital - Cash restricted by lenders (\$4,075,515) or designated by the Board of Directors (\$1,839,188) to be used for costs related to the acquisition and development of Housing Communities, before permanent funding is received.

Housing Communities Reserves and Escrows - Reserves and escrows for unexpected expenses, capital improvements, and operating deficits as required by partnership/operating agreements and debt agreements.

Board Designated Endowment - Board designated funds to support future operating needs of the Organization.

Advantage Services Endowment - Long-term restricted support from donors including earnings of \$3,049,417 above the original gift amounts which is available for appropriation.

The different tiers of cash and investments have anticipated time frames for spending. This timeframe is aligned with the underlying investment strategy so that funds are liquid when required. In addition to liquidity, the Organization also considers security of the funds and ensures security of funds to the extent possible.

The various tiers of cash and investments maintained by the Organization are as follows:

Tier	Investment Strategy	Security	Liquidity Maintained
I	Checking Accounts	Generally FDIC insured	Daily
II	Money Market & Savings	FDIC insured & insured cash sweep accounts	Daily, with certain restrictions on number of withdrawals
III	Savings/Bankers Acceptances	FDIC and SIPC insured	No longer than 90 days
IV	Laddered Certificates of Deposit	FDIC insured	About 20% of balance matures every 90 days
V	70/30 portfolio of equities and fixed income investments	SIPC insured	Mutual funds have daily liquidity

(Continued)

COMMONBOND COMMUNITIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2017

4. CONTRIBUTIONS RECEIVABLE

Contributions receivable are all due in 2018.

Contributions receivable are for:

General operations and other	\$	136,145
Advantage Services		58,100
Endowment		5,000
		<hr/>
Contributions receivable (net)	\$	<u>199,245</u>

At December 31, 2017, 49% of the Organization's contributions receivable were due from three donors.

Contributions receivable due from related parties totaled \$39,600 at December 31, 2017. Related parties include members of the Executive Committee, Directors, General Counsel, members of the Finance Committee, and select staff.

5. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

Land and land improvements	\$	52,763,599
Buildings		556,155,020
Furniture and equipment		18,665,444
Construction in progress		6,203,751
		<hr/>
		633,787,814
Accumulated depreciation		<u>(134,842,063)</u>
		<hr/>
Net property and equipment	\$	<u>498,945,751</u>

The Organization sold a communications easement and access and utility easement during the year for \$721,050, payable in six annual installments of \$120,175 with the first installment collected in 2017. The installment due in 2018 has been included in accounts receivable. The annual installments due in 2019 to 2022 have been included in other receivables net of a discount of \$19,755, representing imputed interest at 1.7%.

(Continued)

COMMONBOND COMMUNITIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2017

6. INVESTMENTS HELD FOR ENDOWMENT

Investments held for endowment consist of the following:

Mutual funds:		
Fixed income funds	\$	3,382,040
US equity funds		3,911,422
International equity funds		3,954,088
Catholic Community Foundation (70% equity funds, 30% fixed income funds)		<u>20,152</u>
Total investments	\$	<u><u>11,267,702</u></u>

Net investment return consisted of the following for 2017 and 2016:

Gains (losses), net	\$	1,354,652
Investment income		219,665
Fees		<u>(23,693)</u>
Net investment return	\$	<u><u>1,550,624</u></u>

7. LONG-TERM DEBT

Corporate Long-term debt consists of the following:

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, 2023. The note is unsecured.	\$	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 installments of \$750,000 each on April 1, 2017 and 2018. The note is unsecured.		750,000
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, 2023. The note is unsecured.		1,500,000

(Continued)

COMMONBOND COMMUNITIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2017

7. LONG-TERM DEBT (Continued)

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, 2022. The note is unsecured.	\$ 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, 2023. The note is unsecured.	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
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
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.	9,458
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.	2,342,335
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 principal and remaining interest are due. As of December 31, 2017, only \$2,277,367 has been advanced on this loan.	2,277,367

(Continued)

COMMONBOND COMMUNITIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2017

7. LONG-TERM DEBT (Continued)

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
Note payable to Local Initiatives Support Corporation (LISC) in the original amount of \$50,000 without interest. The note was to cover predevelopment costs for the Seward Towers development and is due on demand.		50,000
Notes payable to various accredited investors provided under the Housing Opportunity Fund (Note 8).		375,000
Note payable to the HRK Foundation for the Housing Opportunity Fund in the original amount of \$300,000 with interest at 1%. Interest only payments are due monthly. Principal and unpaid interest are due December 31, 2022.		300,000
		<u>14,899,160</u>
Less unamortized debt issuance costs		<u>(94,877)</u>
Total Corporate Long-Term Debt, Net	\$	<u><u>14,804,283</u></u>
Housing Communities Long-term debt consists of:		
Amortizing loans	\$	159,980,002
Non-amortizing loans		<u>115,694,464</u>
		275,674,466
Less unamortized debt issuance costs		<u>(5,509,109)</u>
Total Housing Communities Long-Term Debt, Net	\$	<u><u>270,165,357</u></u>
Total Long-Term Debt, Net	\$	284,969,640
Less current maturities		<u>(3,852,452)</u>
Total Long-Term Debt, Net of Current Maturities	\$	<u><u>281,117,188</u></u>

(Continued)

COMMONBOND COMMUNITIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2017

7. LONG-TERM DEBT (Continued)

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 7%.
- **Non-amortizing Loans** - due upon maturity and have interest rates ranging from 0% to 6.61% and mature at various dates through 2057.

Most of these loans are secured by mortgages on the properties owned by the Housing Communities.

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.

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
2018	\$ 831,177	\$ 3,021,275	\$ 3,852,452
2019	31,741	3,203,660	3,235,401
2020	1,078,489	16,325,390	17,403,879
2021	30,268	5,004,190	5,034,458
2022	2,131,822	8,059,194	10,191,016
Thereafter	10,795,663	240,060,757	250,856,420
	<u>\$ 14,899,160</u>	<u>\$ 275,674,466</u>	<u>\$ 290,573,626</u>

8. HOUSING OPPORTUNITY FUND

In response to the increased demand for affordable, unsubsidized multi-family residential rental properties, CommonBond Communities has created the Housing Opportunity Fund which is offering to issue up to \$20,000,000 in unsecured promissory notes to accredited investors. The proceeds from these notes will be used to make loans to or be invested in affordable, unsubsidized Housing Communities. These notes are for terms of 3 to 15 years with interest rate ranges from a fixed 0.5% to 4.0% depending on the term. Interest on the notes is due quarterly unless waived by the investor. As of December 31, 2017, the Housing Opportunity Fund has issued \$375,000 of promissory notes to accredited investors (Note 7).

(Continued)

COMMONBOND COMMUNITIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2017

9. CONSTRUCTION NOTES PAYABLE

Construction notes provide temporary financing for the construction of Housing Communities. The notes have interest rates ranging from a fixed rate of 2.2% to variable rates based on the monthly LIBOR rate plus basis points (4.26% at December 31, 2017). The notes are secured by pledge of the capital contributions and guaranteed by CommonBond Communities.

The construction notes payable have been presented as long-term liabilities because upon completion of construction, the loans are expected to be repaid with capital contributions, restricted reserves, or the proceeds from permanent financing. Current assets will not be used.

10. 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 December 15, 2019, 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, 2017. A principal payment of \$125,000 is due on December 31, 2018; and the remaining unpaid principal and interest are due on December 15, 2019.

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.

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.

11. 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 \$1,991,700 at December 31, 2017.

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 \$327,176 at December 31, 2017. The change in value of the interest rate swaps of \$69,715 in 2017 is included in gains (losses) on investments in the statement of activities.

(Continued)

COMMONBOND COMMUNITIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2017

11. INTEREST RATE SWAPS (Continued)

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.

12. BOARD DESIGNATED NET ASSETS WITHOUT DONOR RESTRICTIONS

Board designated net assets consist of:

Corporate Central Reserve	\$	1,095,805
Corporate Working Capital		1,839,188
Board Designated Endowment		<u>713,698</u>
Board Designated Net Assets	\$	<u><u>3,648,691</u></u>

13. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are as follows:

Expendable for specified purposes:

Advantage Services	\$	727,280
Community Housing Opportunity Fund (CHOF)		152,000
Housing Communities		386,000
Other Specified Purposes		469,003

Not subject to appropriation or expenditure:

Financing for development of Housing Communities:		
HUD capital advances		73,221,802
Forgivable loans		17,003,132
Section 1602 grants		7,162,440
NeighborWorks America Capital Awards		989,800

Endowments subject to the Organization's spending policy and appropriations:

Advantage Services Endowments (Note 17):		
General Advantage Services Endowment		6,810,057
Paul Fate Youth Endowment		270,855
Veterans Housing Endowment		320,025
Lauren Kesson Youth Endowment		108,650
Advantage Services Endowment earnings		<u>3,049,417</u>

Total net assets with donor restrictions	\$	<u><u>110,670,461</u></u>
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(Continued)

COMMONBOND COMMUNITIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2017

13. NET ASSETS WITH DONOR RESTRICTIONS (Continued)

Net assets released from restrictions are as follows:

Advantage Services	\$	188,083
Other		182,811
Advantage Services Endowment earnings		416,136
Section 1602 grants		905,914
NeighborWorks America Capital Grants		424,200
		<hr/>
	\$	<u>2,117,144</u>

Net assets with donor restrictions consist of \$1,002,039 of restricted cash; \$199,245 of contributions receivable; \$538,000 of restricted cash for long-term purposes; \$10,554,004 investments held for endowment; and \$98,377,174 of Housing Communities' assets.

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 2017, NeighborWorks approved the release of \$424,200 of capital awards previously reported as required to be held in perpetuity.

14. DONATED SERVICES, RENT AND MATERIALS

CommonBond Communities receives 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.

CommonBond Communities also acquired two Housing Communities at a cost below the appraised values. The differences between the acquisition costs and the appraised values are reported as donations.

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, 2017

14. DONATED SERVICES, RENT AND MATERIALS (Continued)

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

Services which met the criteria for recording as contributions	\$ 149,195
Materials and furniture	33,108
Property and equipment	<u>1,825,000</u>
Donated services, material and property and equipment recorded as contributions	2,007,303
Services not recorded (unaudited)	<u>344,179</u>
Total donated services, rent, and materials	<u>\$ 2,351,482</u>

15. INCOME TAXES

CommonBond Housing and its wholly owned subsidiary, CommonBond Investment Corporation; CBC Development, LLC; 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, differences in depreciation lives and methods, 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, 2017.

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

Deferred tax assets	\$ 3,300,000
Deferred tax liabilities	<u>(1,584,000)</u>
Net deferred tax asset	1,716,000
Less valuation allowance	<u>(1,716,000)</u>
Total deferred tax asset	<u>\$ -</u>
Change in valuation allowance	<u>\$ (461,000)</u>

(Continued)

COMMONBOND COMMUNITIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2017

15. INCOME TAXES (Continued)

Recent legislation changed federal corporate income tax rates. Applying the new tax rates to prior years would have decreased the December 31, 2016, net deferred tax asset by \$833,000. The effect of the decrease is recognized in 2017.

At December 31, 2017, the Organization has approximately \$9,675,000 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, 2017, \$9,685,000 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 2027 to 2037.

16. FAIR VALUE MEASUREMENTS

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

	Fair Value	Fair Value Measurement Inputs (see Note 2):	
		Level 1	Level 2
Assets:			
Investments in securities:			
Certificates of deposit	\$ 5,547,546	\$ -	\$ 5,547,546
Mutual funds	11,247,550	11,247,550	-
		\$ 11,247,550	\$ 5,547,546
Investments measured at net asset value:			
Pooled equity funds	94,541		
Catholic Community Foundation (70% equity funds, 30% fixed income funds)	20,152		
	\$ 16,909,789		
Liabilities:			
Interest rate swap agreements	\$ 327,176		\$ 327,176

The fair values of negotiable certificates of deposit are provided by the investment broker based on a market value pricing model. The model uses interest rates currently being offered for deposits of similar remaining maturities as the primary input. The certificates of deposit held at December 31, 2017 have a face value of \$5,500,000 with approximately 20% maturing every 90 days, and have interest rates ranging from 1% to 2%.

(Continued)

COMMONBOND COMMUNITIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2017

16. FAIR VALUE MEASUREMENTS (Continued)

Investments measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented on the statement of financial position.

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 2016.

17. ENDOWMENTS

The Organization has donor restricted endowment funds established for the purpose of providing income to support Advantage Services. In 2017, the Board of Directors established a board designated endowment for the purpose of providing income to support future operating needs of the Organization. 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 net assets with donor restrictions (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, (d) Capital Campaign gifts designated as Greatest Need by the donors and re-designated by the Board of Directors, and (e) earnings on the donor-restricted endowment until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

The Organization uses an endowment spending formula to determine the maximum amount to spend from the endowment each year. Spending for a given year will equal 60% of the spending from the previous year, adjusted for inflation, plus 40% of the long-term spending rate applied to the endowment's current market level at December 31. New gifts are excluded from this calculation in the calendar year they are received.

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.

(Continued)

COMMONBOND COMMUNITIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2017

17. ENDOWMENTS (Continued)

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

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total Endowments</u>
December 31, 2016	\$ -	\$ 9,402,688	\$ 9,402,688
Board designations	713,698	-	713,698
Contributions	-	21,828	21,828
Net investment return	-	1,550,624	1,550,624
Earnings released	-	(416,136)	(416,136)
	<u> </u>	<u> </u>	<u> </u>
December 31, 2017	<u>\$ 713,698</u>	<u>\$ 10,559,004</u>	<u>\$ 11,272,702</u>

Endowment net assets consist of:

Contributions receivable, net	\$ 5,000
Investments held for Advantage Services endowment	10,554,004
Investments held for board designated endowment	<u>713,698</u>
	<u>\$ 11,272,702</u>

18. 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 2034.

Rent revenue received under these commercial leases was \$227,109 in 2017.

Approximate future minimum lease payments are as follows:

2018	\$ 213,000
2019	161,000
2020	117,000
2021	115,000
2022	98,000
Thereafter	<u>340,000</u>
	<u>\$ 1,044,000</u>

(Continued)

COMMONBOND COMMUNITIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2017

19. 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 \$449,181 in 2017.

20. 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 2017. As of December 31, 2017, investments for the deferred compensation obligation consist of pooled equity funds.

21. 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 to develop and construct the Housing Communities. 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 return of capital contributed by the investors if tax credits are not delivered.

(Continued)

COMMONBOND COMMUNITIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2017

21. COMMITMENTS, CONTINGENCIES AND CONCENTRATIONS (Continued)

Commitments – As of December 31, 2017, the Organization has outstanding construction contracts with companies related to several housing developments. The contracts totaled approximately \$21,000,000 of which approximately \$8,000,000 was incurred prior to December 31, 2017.

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, 2017, letters of credit of approximately \$4,124,000 have been issued. No amounts have been drawn on the letters of credit at December 31, 2017. The letters of credit expire at various dates through December 2018.

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, 2017, 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 multifamily rental properties concentrated in the geographical areas of Minneapolis/Saint Paul, Minnesota; Milwaukee/Madison, Wisconsin; and Des Moines, Iowa.

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), Wisconsin Housing and Economic Development Authority (WHEDA), Iowa Finance Authority (IFA) 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, WHEDA IFA 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.

(Continued)

COMMONBOND COMMUNITIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2017

22. RELATED PARTY TRANSACTIONS

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

The Executive Director has made a loan of \$25,000 and a member of the Board of Directors has made a loan of \$50,000 to the Housing Opportunity Fund.

23. SUBSEQUENT EVENTS

The Organization has acquired or entered into purchase agreements for five Housing Communities totaling approximately \$7.7 million. The acquisitions are expected to be financed primarily with long-term debt and limited partner capital contributions.

Management has evaluated subsequent events through May 10, 2018, 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, 2017

	CommonBond Communities	CommonBond Housing	CommonBond Others	Corporate Intercompany Eliminations	Corporate Subtotal	Consolidated Housing Communities	Eliminations	Total
ASSETS								
CURRENT ASSETS:								
Cash and Cash Equivalents	\$ 4,910,159	\$ 852,397	\$ 99,417	\$ -	\$ 5,861,973	\$ -	\$ -	\$ 5,861,973
Restricted Cash	1,002,039	-	-	-	1,002,039	18,243,582	-	19,245,621
Certificates of Deposit	5,547,546	-	-	-	5,547,546	-	-	5,547,546
Accounts Receivable, Net	1,514,619	982,951	120,175	-	2,617,745	1,796,128	(1,699,077)	2,714,796
Accrued Developer Fee Receivable	2,636,553	-	99,500	-	2,736,053	-	(2,736,053)	-
Contributions Receivable	194,245	-	5,000	-	199,245	-	-	199,245
Notes Receivable	24,719	-	-	-	24,719	181,905	(206,624)	-
Prepaid Expenses	26,670	53,343	9,334	-	89,347	535,214	-	624,561
Total Current Assets	<u>15,856,550</u>	<u>1,888,691</u>	<u>333,426</u>	<u>-</u>	<u>18,078,667</u>	<u>20,756,829</u>	<u>(4,641,754)</u>	<u>34,193,742</u>
PROPERTY AND EQUIPMENT:								
Property and Equipment, Net	<u>783,031</u>	<u>62,511</u>	<u>3,903,823</u>	<u>-</u>	<u>4,749,365</u>	<u>545,239,714</u>	<u>(51,043,328)</u>	<u>498,945,751</u>
OTHER ASSETS:								
Notes Receivable - Long-Term	22,931,222	-	32,486	-	22,963,708	729,857	(23,273,565)	420,000
Interest Receivable	568,150	-	-	-	568,150	95,516	(663,666)	-
Other Receivables	-	-	460,945	-	460,945	-	-	460,945
Restricted Cash for Long-Term Purposes	6,300,703	-	750,013	-	7,050,716	-	-	7,050,716
Restricted Escrows and Reserves	-	-	41,899	-	41,899	40,217,308	-	40,259,207
Deferred Charges, Net	-	-	-	-	-	1,007,445	-	1,007,445
Investments in Partnerships and LLC's	16,637,940	393,000	2,751,104	(1,008,163)	18,773,881	3,044,442	(21,791,091)	27,232
Investment - HPIEx	-	177,632	-	-	177,632	-	-	177,632
Investments Held for Deferred Compensation Obligation	-	94,541	-	-	94,541	-	-	94,541
Investments Held for Endowment:								
Restricted by Donors	-	-	7,504,598	-	7,504,598	-	-	7,504,598
Accumulated Earnings	-	-	3,049,406	-	3,049,406	-	-	3,049,406
Board Designated	-	-	713,698	-	713,698	-	-	713,698
Intercompany Balances	11,686,815	(7,848,080)	(3,838,735)	-	-	-	-	-
Total Other Assets	<u>58,124,830</u>	<u>(7,182,907)</u>	<u>11,465,414</u>	<u>(1,008,163)</u>	<u>61,399,174</u>	<u>45,094,568</u>	<u>(45,728,322)</u>	<u>60,765,420</u>
Total Assets	<u>\$ 74,764,411</u>	<u>\$ (5,231,705)</u>	<u>\$ 15,702,663</u>	<u>\$ (1,008,163)</u>	<u>\$ 84,227,206</u>	<u>\$ 611,091,111</u>	<u>\$ (101,413,404)</u>	<u>\$ 593,904,913</u>

See Independent Auditor's Report.

COMMONBOND COMMUNITIES
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2017

	CommonBond Communities	CommonBond Housing	CommonBond Others	Corporate Intercompany Eliminations	Corporate Subtotal	Consolidated Housing Communities	Eliminations	Total
LIABILITIES AND NET ASSETS								
CURRENT LIABILITIES:								
Current Portion of Long-Term Debt	\$ 831,177	\$ -	\$ -	\$ -	\$ 831,177	\$ 3,227,899	\$ (206,624)	\$ 3,852,452
Lines of Credit	250,000	-	-	-	250,000	-	-	250,000
Construction Payable	-	-	-	-	-	2,694,919	(718,965)	1,975,954
Accounts Payable	153,951	234,101	27,672	-	415,724	7,949,035	(4,839,505)	3,525,254
Accrued Expenses	465,145	642,389	34,194	-	1,141,728	14,970,609	(4,847,860)	11,264,477
Accrued Interest	195,775	-	809	-	196,584	1,885,643	(833,600)	1,248,627
Total Current Liabilities	<u>1,896,048</u>	<u>876,490</u>	<u>62,675</u>	<u>-</u>	<u>2,835,213</u>	<u>30,728,105</u>	<u>(11,446,554)</u>	<u>22,116,764</u>
LONG-TERM LIABILITIES:								
Long-Term Debt, net	13,298,106	-	2,334,941	(1,659,941)	13,973,106	341,171,741	(74,027,659)	281,117,188
Construction Notes Payable, net	-	-	-	-	-	15,240,693	-	15,240,693
Accrued Interest	-	-	417,426	(417,426)	-	16,165,129	(8,404,791)	7,760,338
Interest Rate Swaps	-	-	-	-	-	327,176	-	327,176
Deferred Compensation Obligation	-	94,541	-	-	94,541	-	-	94,541
Due to Partners	-	-	-	-	-	921,990	(380,722)	541,268
Other Liabilities	-	-	-	-	-	5,484,389	(5,178,928)	305,461
Deferred Grants	-	-	-	-	-	10,350,560	(10,350,560)	-
Total Long-Term Liabilities	<u>13,298,106</u>	<u>94,541</u>	<u>2,752,367</u>	<u>(2,077,367)</u>	<u>14,067,647</u>	<u>389,661,678</u>	<u>(98,342,660)</u>	<u>305,386,665</u>
Total Liabilities	<u>15,194,154</u>	<u>971,031</u>	<u>2,815,042</u>	<u>(2,077,367)</u>	<u>16,902,860</u>	<u>420,389,783</u>	<u>(109,789,214)</u>	<u>327,503,429</u>
NET ASSETS:								
Without Donor Restrictions:								
Operating Fund	39,573,926	(6,202,736)	1,462,919	1,069,204	35,903,313	-	(14,183,520)	21,719,793
Housing Communities - Controlling interests	-	-	-	-	-	1,322,303	-	1,322,303
Housing Communities - Noncontrolling Interests	-	-	-	-	-	129,074,946	(34,710)	129,040,236
Board Designated	2,934,993	-	713,698	-	3,648,691	-	-	3,648,691
Total Net Assets Without Donor Restrictions	<u>42,508,919</u>	<u>(6,202,736)</u>	<u>2,176,617</u>	<u>1,069,204</u>	<u>39,552,004</u>	<u>130,397,249</u>	<u>(14,218,230)</u>	<u>155,731,023</u>
With Donor Restrictions	17,061,338	-	10,711,004	-	27,772,342	60,304,079	22,594,040	110,670,461
Total Net Assets	<u>59,570,257</u>	<u>(6,202,736)</u>	<u>12,887,621</u>	<u>1,069,204</u>	<u>67,324,346</u>	<u>190,701,328</u>	<u>8,375,810</u>	<u>266,401,484</u>
Total Liabilities and Net Assets	<u>\$ 74,764,411</u>	<u>\$ (5,231,705)</u>	<u>\$ 15,702,663</u>	<u>\$ (1,008,163)</u>	<u>\$ 84,227,206</u>	<u>\$ 611,091,111</u>	<u>\$ (101,413,404)</u>	<u>\$ 593,904,913</u>

See Independent Auditor's Report.

COMMONBOND COMMUNITIES
CONSOLIDATING STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2017

	CommonBond Communities	CommonBond Housing	CommonBond Others	Corporate Intercompany Eliminations	Corporate Subtotal	Consolidated Housing Communities	Eliminations	Total
REVENUES FROM OPERATIONS:								
Contributions	\$ 3,643,182	\$ -	\$ 202,921	\$ -	\$ 3,846,103	\$ -	\$ -	\$ 3,846,103
In-Kind Contributions	182,303	-	-	-	182,303	1,825,000	-	2,007,303
Total Contributions	3,825,485	-	202,921	-	4,028,406	1,825,000	-	5,853,406
Government Grants - Operating	179,919	-	9,032	-	188,951	138,726	-	327,677
Government Grants - Construction	559,627	-	-	-	559,627	645,505	(645,505)	559,627
Total Government Grants	739,546	-	9,032	-	748,578	784,231	(645,505)	887,304
Fees for Services:								
Property Management	-	4,807,955	-	-	4,807,955	-	(4,086,969)	720,986
Housing Development	3,731,643	-	-	-	3,731,643	-	(3,663,211)	68,432
Advantage Services	1,923,771	-	-	-	1,923,771	-	(1,608,488)	315,283
Other	181,399	129,946	19,386	-	330,731	194	(199,441)	131,484
Total Fees for Services	5,836,813	4,937,901	19,386	-	10,794,100	194	(9,558,109)	1,236,185
Housing Communities Rental and Related Revenue	38,195	-	-	-	38,195	55,574,332	(128,336)	55,484,191
Interest and Dividends	745,679	1,093	548	-	747,320	259,404	(695,007)	311,717
Other Receipts and Recoveries from Housing Communities	504,899	-	-	-	504,899	-	(504,899)	-
Miscellaneous	863,772	134,103	677,089	(559,760)	1,115,204	-	(898,352)	216,852
Total Housing and Other Revenue	2,152,545	135,196	677,637	(559,760)	2,405,618	55,833,736	(2,226,594)	56,012,760
Total Revenues from Operations	12,554,389	5,073,097	908,976	(559,760)	17,976,702	58,443,161	(12,430,208)	63,989,655
EXPENSES FROM OPERATIONS:								
Program Services:								
Property Operations and Management:								
Housing Communities	423,895	2,259,906	109,359	-	2,793,160	72,226,220	(8,822,800)	66,196,580
Third Party Contracts	87,771	666,416	68,065	-	822,252	-	-	822,252
Housing Development	429,516	1,273,500	173,430	(84,688)	1,791,758	63,379	(56,000)	1,799,137
Advantage Services	4,586,623	322,969	167,418	-	5,077,010	1,554,355	(1,499,888)	5,131,477
Asset Management	54,298	382,958	15,213	-	452,469	-	-	452,469
Community Engagement	24,179	4,681	8,561	-	37,421	-	-	37,421
Total Program Services	5,606,282	4,910,430	542,046	(84,688)	10,974,070	73,843,954	(10,378,688)	74,439,336
Supporting Services:								
General and Administrative	772,057	1,349,900	200,939	(559,760)	1,763,136	-	-	1,763,136
Fund Development	1,555,597	43,297	94,079	-	1,692,973	-	-	1,692,973
Total Supporting Services	2,327,654	1,393,197	295,018	(559,760)	3,456,109	-	-	3,456,109
Total Expenses from Operations	7,933,936	6,303,627	837,064	(644,448)	14,430,179	73,843,954	(10,378,688)	77,895,445
CHANGE IN NET ASSETS BEFORE OTHER INCOME AND EXPENSE	4,620,453	(1,230,530)	71,912	84,688	3,546,523	(15,400,793)	(2,051,520)	(13,905,790)
OTHER INCOME AND (EXPENSE):								
Gain (Loss) on Disposal of Property and Equipment	-	-	701,295	-	701,295	(515,124)	-	186,171
Residual Receipts Recapture	-	-	-	-	-	(106,975)	-	(106,975)
Endowment Investment Return, Net	-	-	1,550,624	-	1,550,624	-	-	1,550,624
Gains (Losses) on Investments, Net	1,651	-	-	-	1,651	69,715	-	71,366
Gains (Losses) from Partnerships	(237,980)	-	(54,455)	-	(292,435)	(14,744)	307,179	-
Total Other Income and (Expense)	(236,329)	-	2,197,464	-	1,961,135	(567,128)	307,179	1,701,186
CHANGE IN NET ASSETS	4,384,124	(1,230,530)	2,269,376	84,688	5,507,658	(15,967,921)	(1,744,341)	(12,204,604)
Noncontrolling Interests in Losses	-	-	-	-	-	13,128,179	-	13,128,179
CHANGE IN NET ASSETS AFTER NONCONTROLLING INTERESTS	\$ 4,384,124	\$ (1,230,530)	\$ 2,269,376	\$ 84,688	\$ 5,507,658	\$ (2,839,742)	\$ (1,744,341)	\$ 923,575

See Independent Auditor's Report.

COMMONBOND COMMUNITIES
CONSOLIDATING STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2017

	CommonBond Communities	CommonBond Housing	CommonBond Others	Corporate Intercompany Eliminations	Corporate Subtotal	Consolidated Housing Communities	Eliminations	Total
Balance, December 31, 2016	\$ 55,714,990	\$ (4,972,206)	\$ 9,493,296	\$ 984,516	\$ 61,220,596	\$ 172,279,113	\$ 11,700,731	\$ 245,200,440
Change in Net Assets	4,384,124	(1,230,530)	2,269,376	84,688	5,507,658	(15,967,921)	(1,744,341)	(12,204,604)
Transfer of Capital Campaign Funds	(22,000)	-	22,000	-	-	-	-	-
Endowment Appropriation for Advantage Services	416,136	-	(416,136)	-	-	-	-	-
Other Transfers of Net Assets	(922,993)	-	1,519,085	-	596,092	(596,092)	-	-
Other Housing Activity:								
Capital Contributions	-	-	-	-	-	36,069,208	(2,480,215)	33,588,993
Cash Distributions	-	-	-	-	-	(932,770)	899,635	(33,135)
Syndication Costs and Other	-	-	-	-	-	(150,210)	-	(150,210)
Balance, December 31, 2017	<u>\$ 59,570,257</u>	<u>\$ (6,202,736)</u>	<u>\$ 12,887,621</u>	<u>\$ 1,069,204</u>	<u>\$ 67,324,346</u>	<u>\$ 190,701,328</u>	<u>\$ 8,375,810</u>	<u>\$ 266,401,484</u>
Reconciliation of 2017 Net Assets:								
Noncontrolling Interests:								
Beginning of Year	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 109,200,100	\$ (34,710)	\$ 109,165,390
Interest in Limited Partnership Losses	-	-	-	-	-	(13,128,179)	-	(13,128,179)
Capital Contributions	-	-	-	-	-	33,588,993	-	33,588,993
Cash Distribution	-	-	-	-	-	(33,135)	-	(33,135)
Syndication Costs	-	-	-	-	-	(150,210)	-	(150,210)
Assigned Interests	-	-	-	-	-	(402,623)	-	(402,623)
End of Year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>129,074,946</u>	<u>(34,710)</u>	<u>129,040,236</u>
Controlling Interests:								
Beginning of Year	55,714,990	(4,972,206)	9,493,296	984,516	61,220,596	63,079,013	11,735,441	136,035,050
Change in Net Assets	4,384,124	(1,230,530)	2,269,376	84,688	5,507,658	(2,839,742)	(1,744,341)	923,575
Transfer	(22,000)	-	22,000	-	-	-	-	-
Endowment appropriation for Advantage Services	416,136	-	(416,136)	-	-	-	-	-
Other Transfers of Net Assets	(922,993)	-	1,519,085	-	596,092	(596,092)	-	-
Capital Contributions	-	-	-	-	-	2,480,215	(2,480,215)	-
Cash Distributions	-	-	-	-	-	(899,635)	899,635	-
Assigned Interests	-	-	-	-	-	402,623	-	402,623
End of Year	<u>59,570,257</u>	<u>(6,202,736)</u>	<u>12,887,621</u>	<u>1,069,204</u>	<u>67,324,346</u>	<u>61,626,382</u>	<u>8,410,520</u>	<u>137,361,248</u>
	<u>\$ 59,570,257</u>	<u>\$ (6,202,736)</u>	<u>\$ 12,887,621</u>	<u>\$ 1,069,204</u>	<u>\$ 67,324,346</u>	<u>\$ 190,701,328</u>	<u>\$ 8,375,810</u>	<u>\$ 266,401,484</u>

See Independent Auditor's Report.

COMMONBOND COMMUNITIES

**SCHEDULE OF FINANCIAL POSITION
NEIGHBORWORKS RESTRICTED FUNDS**

DECEMBER 31, 2017

ASSETS

Housing Communities:	
CB Florist Gardens, LLC (Milwaukee, WI)	\$ 314,096
Brewery Point Apartments, LLC (Milwaukee, WI)	375,704
Historic Tallcorn Towers LLLP (Marshalltown, IA)	<u>300,000</u>
Total assets	<u>\$ 989,800</u>

LIABILITIES AND NET ASSETS

Net assets:	
With Donor Restrictions	<u>\$ 989,800</u>
Total liabilities and net assets	<u>\$ 989,800</u>

**STATEMENT OF ACTIVITIES
NEIGHBORWORKS RESTRICTED FUNDS**

FOR THE YEAR ENDED DECEMBER 31, 2017

Net assets – beginning of year	<u>\$ 1,414,000</u>
Additions:	
Capital grants	-
Releases	<u>(424,200)</u>
Change in net assets	<u>(424,200)</u>
Net assets – end of year	<u>\$ 989,800</u>

See Independent Auditor's Report.