

PROJECT FOR PRIDE IN LIVING, INC.

**CONSOLIDATED FINANCIAL STATEMENTS
WITH SUPPLEMENTARY CONSOLIDATING INFORMATION**

**FOR THE YEAR ENDED
DECEMBER 31, 2017**

PROJECT FOR PRIDE IN LIVING, INC.

CONSOLIDATED FINANCIAL STATEMENTS WITH SUPPLEMENTARY CONSOLIDATING INFORMATION

For the Year Ended December 31, 2017
(With Comparative Totals for 2016)

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Project for Pride in Living, Inc.
Minneapolis, Minnesota

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Project for Pride in Living, Inc. (a nonprofit organization) and affiliates (PPL), which comprise the consolidated statement of financial position as of December 31, 2017, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of affiliated limited partnerships were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

(Continued)

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Project for Pride in Living, Inc. 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*Report on Summarized Comparative Information*

We have previously audited the 2016 consolidated financial statements of Project for Pride in Living, Inc. and affiliates, and we expressed an unmodified opinion on those financial statements in our report dated June 28, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Report on Consolidating 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 26 through 29 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, changes in net assets, functional expenses, and cash flows of the individual entities, and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating 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 consolidating information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 22, 2018, on our consideration of Project for Pride in Living, Inc. 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 Project for Pride in Living, Inc. 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 Project for Pride in Living, Inc. and affiliates' internal control over financial reporting and compliance.

June 22, 2018

*Mahoney Ulbrich
Christiansen Russ P.A.*

PROJECT FOR PRIDE IN LIVING, INC.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

December 31, 2017

(With Comparative Totals for 2016)

	2017	2016
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 5,731,226	\$ 6,164,571
Cash - comprehensive campaign	205,219	-
Investments	1,396,211	1,391,550
Current portion of receivables, net	2,615,199	1,811,211
Inventories	63,480	80,203
Property held for sale	1,071,093	1,115,481
Prepaid expenses	393,512	397,074
Total current assets	11,475,940	10,960,090
Cash held in construction escrows	8,432,861	630,541
Cash - custodial	855,144	963,614
Cash - comprehensive campaign	1,444,091	202,843
Property reserves	9,272,430	8,811,921
Receivables, less current portion, net	5,766,535	471,789
Other assets, net	628,340	443,808
LLC investments	-	97,491
Property under development	9,728,463	10,356,092
Property and equipment, net	168,551,780	140,188,635
Total assets	\$ 216,155,584	\$ 173,126,824
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 693,195	\$ 593,108
Accrued payroll and related	344,714	328,812
Accrued real estate taxes	1,025,574	837,807
Other accrued liabilities	200,692	465,866
Current portion of deferred revenues	386,488	985,105
Current portion of accrued interest	50,769	88,394
Current portion of notes payable and lines of credit	1,084,045	1,788,604
Current portion of mortgages payable	1,572,501	1,151,015
Total current liabilities	5,357,978	6,238,711
Construction payables	3,216,779	1,155,260
Escrows and deposits	812,289	936,817
Deferred revenues, less current portion	1,961,290	2,081,130
Accrued interest, less current portion	7,671,283	7,985,996
Notes payable and lines of credit, less current portion, net	9,052,612	5,053,931
Mortgages payable, less current portion, net	104,514,919	84,432,734
Total liabilities	132,587,150	107,884,579
Net assets:		
Unrestricted	12,756,529	12,533,896
Noncontrolling limited partner interests	67,420,370	51,734,177
Total unrestricted net assets	80,176,899	64,268,073
Temporarily restricted	3,235,876	818,513
Permanently restricted	155,659	155,659
Total net assets	83,568,434	65,242,245
Total liabilities and net assets	\$ 216,155,584	\$ 173,126,824

See accompanying notes to consolidated financial statements.

PROJECT FOR PRIDE IN LIVING, INC.

CONSOLIDATED STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2017
(With Comparative Totals for 2016)

	2017			Total	2016
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Revenues and support:					
Contributions	\$ 3,245,944	\$ 1,180,052	\$ -	\$ 4,425,996	\$ 3,896,936
Net assets released from program and time restrictions	499,911	(499,911)	-	-	-
Government grants	8,508,742	-	-	8,508,742	10,446,276
United Way	574,348	-	-	574,348	757,898
Rental revenues	13,064,117	-	-	13,064,117	12,534,393
Sales	574,203	-	-	574,203	1,581,833
Program fees	439,994	-	-	439,994	659,368
Developer fees	2,060,266	-	-	2,060,266	1,951,056
Other income	519,103	-	-	519,103	797,301
Interest	74,955	-	-	74,955	60,526
Total revenues and support	<u>29,561,583</u>	<u>680,141</u>	<u>-</u>	<u>30,241,724</u>	<u>32,685,587</u>
Expenses:					
Program services:					
Housing with services	26,113,604	-	-	26,113,604	26,627,175
Employment readiness	4,050,880	-	-	4,050,880	4,014,001
Other programs	965,149	-	-	965,149	845,301
Total program services	31,129,633	-	-	31,129,633	31,486,477
General and administrative	1,835,277	-	-	1,835,277	1,826,880
Fundraising	1,019,021	-	-	1,019,021	685,501
Total expenses	<u>33,983,931</u>	<u>-</u>	<u>-</u>	<u>33,983,931</u>	<u>33,998,858</u>
Change in net assets before nonoperating activity	(4,422,348)	680,141	-	(3,742,207)	(1,313,271)
Gain from investments	10,933	-	-	10,933	11,472
Loss from LLC investments	(97,491)	-	-	(97,491)	(88,881)
Gain on sale of Hague property	1,167,840	-	-	1,167,840	-
Impairment loss on Van Cleve property	(471,323)	-	-	(471,323)	-
Loss on divestitures	-	-	-	-	(72,806)
Comprehensive campaign contributions	490,125	1,737,222	-	2,227,347	202,843
Noncontrolling limited partner interests in losses	3,544,897	-	-	3,544,897	4,383,632
Change in net assets for controlling interest	222,633	2,417,363	-	2,639,996	3,122,989
Capital contributions from noncontrolling interests, net	19,291,080	-	-	19,291,080	19,364,927
Distributions	(59,990)	-	-	(59,990)	(17,690)
Noncontrolling limited partner interests in losses	(3,544,897)	-	-	(3,544,897)	(4,383,632)
Change in net assets	15,908,826	2,417,363	-	18,326,189	18,086,594
Net assets, beginning of year	64,268,073	818,513	155,659	65,242,245	47,155,651
Net assets, end of year	<u>\$ 80,176,899</u>	<u>\$ 3,235,876</u>	<u>\$ 155,659</u>	<u>\$ 83,568,434</u>	<u>\$ 65,242,245</u>
Reconciliation of net assets:					
Noncontrolling interests:					
Beginning of year				\$ 51,734,177	\$ 36,770,572
Noncontrolling limited partner interests in losses				(3,544,897)	(4,383,632)
Capital contributions, net				19,291,080	19,364,927
Distributions				(59,990)	(17,690)
End of year				<u>67,420,370</u>	<u>51,734,177</u>
Controlling interest:					
Beginning of year				13,508,068	10,385,079
Change in net assets				2,639,996	3,122,989
End of year				<u>16,148,064</u>	<u>13,508,068</u>
Total				<u>\$ 83,568,434</u>	<u>\$ 65,242,245</u>

See accompanying notes to consolidated financial statements.

PROJECT FOR PRIDE IN LIVING, INC.

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2017
(With Comparative Totals for 2016)

	2017							2016
	Program services			Total programs	General and administrative	Fund-raising	Total expenses	
	Housing with services	Employment readiness	Other programs					
Salaries	\$ 4,782,064	\$ 2,403,961	\$ 274,030	\$ 7,460,055	\$ 1,023,656	\$ 498,522	\$ 8,982,233	\$ 8,551,328
Payroll taxes	321,571	165,146	18,907	505,624	87,671	30,335	623,630	592,932
Employee benefits	805,413	408,673	46,585	1,260,671	174,022	84,749	1,519,442	1,560,813
Total salaries and related	5,909,048	2,977,780	339,522	9,226,350	1,285,349	613,606	11,125,305	10,705,073
Cost of sales	965,349	20,692	-	986,041	-	-	986,041	1,987,201
Direct service program costs	2,097,612	491,825	27,004	2,616,441	4,027	-	2,620,468	2,726,558
Professional fees	633,191	358,581	211,731	1,203,503	166,697	209,557	1,579,757	1,462,654
Office administration and support	279,055	66,874	226,516	572,445	134,107	19,706	726,258	686,792
Conferences and meetings	12,298	4,517	140	16,955	24,082	1,344	42,381	44,549
Staff development and appreciation	44,580	10,594	5,800	60,974	12,675	3,071	76,720	74,154
Marketing and promotion	-	11,977	776	12,753	1,350	122,025	136,128	102,699
Transportation	196,433	25,983	32,162	254,578	9,768	938	265,284	209,700
Bad debts / loss allowance	192,088	1,138	-	193,226	-	9,806	203,032	220,952
Insurance	465,532	-	-	465,532	75,379	-	540,911	591,973
Building operations expenses	8,348,135	35,833	-	8,383,968	-	-	8,383,968	7,905,157
Rent	2,400	6,700	-	9,100	-	-	9,100	8,450
Depreciation and amortization	5,499,060	-	121,498	5,620,558	-	-	5,620,558	5,395,012
Interest and other bank fees	1,614,390	38,386	-	1,652,776	15,244	-	1,668,020	1,877,934
Inter-entity expenses	(145,567)	-	-	(145,567)	106,599	38,968	-	-
	<u>\$ 26,113,604</u>	<u>\$ 4,050,880</u>	<u>\$ 965,149</u>	<u>\$ 31,129,633</u>	<u>\$ 1,835,277</u>	<u>\$ 1,019,021</u>	<u>\$ 33,983,931</u>	<u>\$ 33,998,858</u>

See accompanying notes to consolidated financial statements.

PROJECT FOR PRIDE IN LIVING, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2017
(With Comparative Totals for 2016)
Increase (Decrease) in Cash and Cash Equivalents

	2017	2016
Cash flows from operating activities:		
Change in net assets	\$ 18,326,189	\$ 18,086,594
Adjustments to reconcile the change in net assets to net cash from operating activities:		
Depreciation and amortization	5,620,558	5,395,012
Interest expense - amortization of finance fees	300,648	167,522
Gain from investments	(10,933)	(11,472)
Loss from LLC investments	97,491	88,881
Gain on sale of Hague property	(1,167,840)	-
Impairment of Van Cleve property	471,323	-
Loss on divestitures	-	72,806
Contribution of condominium unit	-	(59,000)
Income from debt forgiveness	(81,754)	(485,046)
Bad debts	203,032	220,952
Amortization of deferred grant	(54,371)	(54,371)
Comprehensive campaign Franklin Theater	(1,937,997)	-
Capital contributions, net	(19,291,080)	(19,364,927)
Changes in operating assets and liabilities:		
Receivables	(886,765)	(247,938)
Inventories	16,723	(24,310)
Prepaid expenses and other assets	(107,207)	(20,480)
Property held for sale	44,388	(85,061)
Accounts payable	104,414	(39,162)
Accrued expenses and other liabilities	(699,165)	348,339
Deferred revenues	(688,853)	(8,634)
Net cash from operating activities	<u>258,801</u>	<u>3,979,705</u>
Cash flows from investing activities:		
Purchase of property and equipment	(32,288,246)	(21,008,443)
Proceeds from sale of Hague property	1,442,000	-
Issuance of notes receivable	(4,829,500)	-
Receipts from collection of notes receivable	50,000	50,000
Withdrawals from escrows and reserves, net	(8,237,229)	108,093
Net cash from investing activities	<u>(43,862,975)</u>	<u>(20,850,350)</u>
Cash flows from financing activities:		
Proceeds from issuance of notes payable and lines of credit	4,551,205	836,720
Repayment of notes payable and lines of credit	(1,153,333)	(2,828,688)
Proceeds from issuance of mortgages payable	26,332,260	17,888,926
Repayment of mortgages payable	(5,535,069)	(17,150,632)
Comprehensive campaign	1,937,997	-
Payment of finance and tax credit fees	(806,844)	(269,881)
Capital contributions from noncontrolling interests, net	19,291,080	19,364,927
Net cash from financing activities	<u>44,617,296</u>	<u>17,841,372</u>
Net increase in cash and cash equivalents	1,013,122	970,727
Cash and cash equivalents, beginning of year	<u>6,367,414</u>	<u>5,396,687</u>
Cash and cash equivalents, end of year	<u>\$ 7,380,536</u>	<u>\$ 6,367,414</u>
Reconciliation to the statement of financial position:		
Cash	\$ 5,731,226	\$ 6,164,571
Cash - comprehensive campaign	1,649,310	202,843
	<u>\$ 7,380,536</u>	<u>\$ 6,367,414</u>
Supplemental cash flow information:		
Cash paid for interest	\$ 973,953	\$ 1,021,925
Noncash investing and financing activities:		
Property additions in accounts payable and accrued liabilities	\$ 3,216,779	\$ 1,173,447
Total noncash assets divested	\$ -	\$ 583,871
Total liabilities divested	\$ -	\$ 511,065

See accompanying notes to consolidated financial statements.

PROJECT FOR PRIDE IN LIVING, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2017
(With Comparative Totals for 2016)

1. ORGANIZATION

Project for Pride in Living, Inc. is a nonprofit organization that builds the hope, assets, and self-reliance of individuals and families who have lower incomes by providing transformative affordable housing and employment readiness services. Project for Pride in Living, Inc. and its affiliates (collectively PPL) operate in the Minneapolis and Saint Paul, Minnesota metropolitan area.

PPL implements its mission in the following core program areas:

Housing With Services – This PPL program provides more than 1,400 units of affordable, multi-family residential rental housing for low income individuals and families. The program includes PPL Properties and limited partnerships in which PPL is a general partner. The program also provides feasibility analysis, pre-development, development, and construction management of affordable rental and for-sale housing, and asset management and property management of multi-family residential properties. PPL also manages affordable housing with other owners.

PPL works directly with families and children to make the transition from poverty and instability to economic independence and healthy, integrated living. The services provided take a holistic and comprehensive approach to assisting families while providing a range of support services and links to community resources. PPL also provides housing and comprehensive support services to disabled homeless adults often with mental illness and chemical dependency.

Employment Readiness – This PPL program assists in the economic advancement of individuals through free employment training workshops, classes and certificate programs. Our integrated services focus on helping each individual overcome their barriers to employment and job retention. In addition, PPL assists families working with the Minnesota Family Investment Program (MFIP) through the Connections to Work program and job seekers work attire through Ready for Success.

PPL aims to assist people towards self-sufficiency by offering high quality educational and employment services in partnership with the community. This includes two alternative high schools which are under contract with the Minneapolis Public Schools District. It was also an authorizer for several charter schools (Partnership Academy in Richfield, Minnesota; Freedom Academy in Minneapolis, Minnesota; Face to Face Academy in Saint Paul, Minnesota; and Saint Paul City School in Saint Paul, Minnesota) through first half of 2017. In addition to the two alternative schools, PPL also connects youth to education and training programs through Learn and Earn to Achieve Potential (LEAP), a collective impact model consisting of seven alternative schools, Hennepin County, and Minneapolis Public Schools.

(Continued)

PROJECT FOR PRIDE IN LIVING, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2017
(With Comparative Totals for 2016)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PPL's programs are supported primarily by contributions, government grants, sales, rental revenues, and fees for services.

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.

The most significant estimates are the estimated useful lives of property and equipment, costs incurred by PPL relating to developer fee revenue, and the carrying amount of property under development and held for sale.

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

- Unrestricted net assets represent the portion of net assets that are not subject to donor restrictions.
- Temporarily restricted net assets arise from contributions that are restricted by donors for specific purposes or time periods.
- Permanently restricted net assets arise from contributions that the donor has stipulated must be maintained in perpetuity.

PPL has presented limited partner capital contributions, debt forgiveness, losses from divestitures of program activities, Building Ladders Comprehensive Campaign contributions, plus other activity separate from operating results because PPL believes the presentation better assists users of the financial statements with analyzing its operating results.

Principles of Consolidation - The consolidated financial statements include Project for Pride in Living, Inc. (parent organization); PPL Properties, an affiliated nonprofit organization whose board is controlled by PPL which wholly owns single-purpose limited liability companies (LLC's); PPL Investment Corporation, an affiliated nonprofit organization whose board is controlled by PPL organized as a supporting organization for the New Markets Tax Credits; and limited partnerships in which PPL has a controlling interest as a general partner.

(Continued)

PROJECT FOR PRIDE IN LIVING, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2017
(With Comparative Totals for 2016)

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

All significant inter-entity accounts and transactions have been eliminated with the exception of developer fees.

Developer fees are recorded as revenue (or deferred revenue, if the developer fee is deferred) by PPL and capitalized as property of the limited partnerships and the LLC's.

Under generally accepted accounting principles, there is a presumption that a nonprofit general partner in a limited partnership has control over that partnership, regardless of the percentage of ownership. Therefore, PPL has consolidated these entities unless another general partner has control. The partnership interests generally range from .01% to 1.0% with the remainder of the partnership equity held by investor limited partners. The interests of the noncontrolling limited and general partners have been included in unrestricted net assets and the change in unrestricted net assets.

Cash and Cash Equivalents - PPL considers all highly liquid investments purchased with original maturities of three months or less and any certificates of deposit that do not contain material early withdrawal penalties to be cash equivalents.

Cash - Comprehensive Campaign - These are restricted funds collected through the Building Ladders Comprehensive Campaign.

Cash - Construction Escrows - These are primarily funds held at a title company to be used for properties under construction.

Cash - Custodial - These are primarily funds held by PPL for tenant security deposits and a Minnesota Housing Finance Agency emergency repair program.

Property Reserves - Property reserves are funds held in accordance with the terms of long-term debt, limited partnership, and LLC organizational agreements. PPL is required to maintain the property reserves primarily for future use in property replacements and improvements, operating reserves, and debt service.

Investments - Investments are carried at fair value. Realized and unrealized gains and losses are included in the statement of activities.

LLC Investments - PPL has noncontrolling investments in two LLC's. These investments are recorded using the equity method of accounting.

(Continued)

PROJECT FOR PRIDE IN LIVING, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2017
(With Comparative Totals for 2016)

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

Receivables - Allowances - Receivables are stated at the amount management expects to collect. Management reviews receivables on a regular basis and establishes an allowance based on expected collections. Receivables are written off as a charge to the allowance when, in management's estimation, it is probable that the receivable is worthless.

Loans to a consolidated affordable housing project that are funded by grant revenue are fully allowed for, with a charge to inter-entity expense at the time of the loan, when collection is not expected.

Inventories - Inventories consist primarily of goods held for resale and are stated at the lower of cost or fair value as determined on a specific identification basis.

Donated inventories are recorded at their estimated fair value, on the date of contribution. Donated inventories received were \$262,980 in 2017 and \$373,605 in 2016.

Other Assets - Tax Credit Fees - Tax credit fees are amortized over the related term benefited using the straight-line method.

Finance Fees - Finance fees are amortized over the related term benefited using the straight-line method. Amortization is included in interest expense on the statement of functional expenses.

Property Under Development and Held For Sale - Property under development is stated at cost, unless such costs would not be recovered from the cash flow generated from sales or closing of limited partnership equity and financing. Costs consist primarily of land, legal, architectural, construction and other costs incurred to date. After development is substantially complete, costs such as utilities, maintenance, and interest are charged to expense. Property held for sale is stated at the lower of cost or fair value, as determined on a specific identification basis.

Property and Equipment - Property and equipment are carried at cost, with the exception of donated items which are recorded at fair market value at date of gift. Depreciation is provided for on a straight-line basis over the estimated useful life of each asset. The cost of maintenance and repairs is charged to expense as incurred; significant renewals or betterments are capitalized.

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

(Continued)

PROJECT FOR PRIDE IN LIVING, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2017
(With Comparative Totals for 2016)

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

Impairment - Management reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be fully recoverable. In such circumstances, PPL evaluates the recoverability of long-lived assets by comparing the carrying amount of the assets against the estimated undiscounted future cash flows associated with such assets. At the time such evaluations indicate that the future undiscounted cash flows of a long-lived asset are not sufficient to recover the carrying value of such asset, the asset is adjusted to its fair value.

Contingent Liabilities - PPL provides guarantees for operating deficits, tax credits and construction completion to investors in partnerships.

Warranty Costs - PPL provides its homebuyers a limited warranty as required by state statutes. PPL contracts with builders who provide PPL an indemnity for claims relating to workmanship and materials. PPL's historic warranty costs have been minimal.

Deferred Revenues - Deferred revenues consist primarily of affordability grants from public agencies to subsidize affordable housing and developer fees. Grants for construction of for-sale housing are recognized as revenue upon sale of the properties.

Revenue from governmental repayable grants for rental properties is deferred and recognized as revenue using the straight-line method over the life of the property. The affordable housing grants are repayable contingent on maintaining compliance with the grant terms.

United Way Revenue Recognition - Funding commitments from the Greater Twin Cities United Way are recorded in the year the United Way board approves the funding.

Contributed Materials - Contributed materials are recorded as contributions, when received, at their fair value. PPL received donated inventories in 2017 and 2016 as noted on page 10. PPL Properties received a donated condominium unit valued at \$59,000 in 2016.

Contributed Services - Unpaid volunteers have made significant contributions of their time to PPL's programs. The fair value of this contributed time is reflected in these statements only if the services create or enhance nonfinancial assets or require specialized skills and would typically need to be purchased if not provided by donation. No contributed services were recorded in 2017 and 2016.

(Continued)

PROJECT FOR PRIDE IN LIVING, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2017
(With Comparative Totals for 2016)

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

Contributions - Pledges - Contributions are recognized when the donor makes an unconditional promise to give to PPL. Donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized.

Pledges receivable of \$781,424 are due in 2018, \$174,734 in 2019, \$31,998 in 2020, and \$1,000 are due in 2021. Pledges receivable of \$299,155 due in 2018 are related to the Building Ladders Comprehensive Campaign and are presented as long-term assets.

Government Grants - Government grants are generally considered exchange transactions and are recorded as revenue when earned. Revenue is generally earned when eligible expenditures are incurred, except as follows:

- Government grants for construction of for-sale properties are recorded as deferred revenue and recognized as revenue upon sale.
- Passed-through government grants for affordable housing which are subsequently loaned to a limited partnership are recognized as revenue and fully allowed for when the property is placed into service.
- Government grants for construction of multi-family affordable housing are recognized over the estimated useful life of the property.

Real Estate Revenues - Revenue from residential rents and services is recognized in the period the service is performed. Prepaid rent is recorded as deferred revenue.

Developer fees from limited partnerships which have been or are expected to be collected from capital contributions or debt proceeds have not been eliminated. These fees are considered a reimbursement of salaries and benefits, overhead, consultants, and other expenses.

PPL provides property management, asset management, maintenance and security services for properties controlled by PPL and others. Revenue is recorded in accordance with the agreements. Related party revenues other than developer fees have been eliminated in the consolidated financial statements.

Sales of real estate are recorded at the time of closing of the sale, when title to and possession of the property are transferred to the buyer. Cost of sales is based on direct costs when available.

(Continued)

PROJECT FOR PRIDE IN LIVING, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2017
(With Comparative Totals for 2016)

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

Fair Value Measurements - PPL determines fair value, when necessary, based on the assumptions that market participants would use when pricing the asset or liability. Valuation inputs are categorized using the following fair value hierarchy:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - inputs that are observable, directly or indirectly, other than the quoted prices included in Level 1; and
- Level 3 - inputs that are unobservable for the asset or liability, which are typically based on an organization's own assumptions, as there is little, if any, related market activity.

Fair value measurements were applied to the investments based on Level 1 inputs. Fair value measurements were applied to beneficial interests in securities held by community foundations based on PPL's share of the underlying investment pool (Level 2 inputs). Fair value measurements were applied to property held for development (Level 3 inputs).

Functional Expenses - Expenses have been allocated between program and supporting services classifications based upon direct expenditures and estimates made by PPL's management.

Advertising Costs - Advertising costs are charged to expense during the year in which they are incurred.

Prior Year Summarized Comparative Information - The financial statements include certain prior year summarized comparative information in total but not by net asset class. 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 PPL's financial statements for the year ended December 31, 2016, from which the summarized information was derived.

Reclassifications - Reclassifications were made to the 2016 financial statements to be consistent with the current year financial statements. These reclassifications did not affect net assets or the change in net assets.

(Continued)

PROJECT FOR PRIDE IN LIVING, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2017
(With Comparative Totals for 2016)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes - Project for Pride in Living, Inc., PPL Properties, and PPL Investment Corporation are classified as tax-exempt organizations under Minnesota Statute 290.05 and Section 501(c)(3) of the Internal Revenue Code, are exempt from private foundation status under Section 509(a)(1) of the Internal Revenue Code, and are subject to income taxes only on net unrelated business income. Management believes these organizations did not have any unrelated business income in 2017 or 2016.

Management believes PPL does not have any uncertain tax positions that are material to the financial statements. Federal and state tax authorities generally have the right to examine the current and three previous years of income tax returns. The organizations are not currently under examination by any taxing jurisdiction.

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

3. INVESTMENTS

Investments and related gains (losses) consist of the following:

	2017	2016
Money market accounts	\$ 23,117	\$ 26,719
U.S. government money market fund	11,310	74,128
Municipal bonds	905,869	842,858
Bond mutual funds	199,224	199,612
Corporate stocks	242,306	242,773
International equities	14,385	5,460
	<u>\$ 1,396,211</u>	<u>\$ 1,391,550</u>
	2017	2016
Realized gains	\$ 24,796	\$ 2,742
Unrealized gains (losses)	(13,863)	8,730
	<u>\$ 10,933</u>	<u>\$ 11,472</u>

(Continued)

PROJECT FOR PRIDE IN LIVING, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2017
(With Comparative Totals for 2016)

4. RECEIVABLES

Receivables consist of the following:

	2017	2016
Tenant receivables	\$ 568,962	\$ 470,745
Trade and other receivables	1,403,920	585,209
Notes receivable	4,979,500	200,000
Government grants receivable	601,115	701,724
Pledges receivable	989,156	407,417
	8,542,653	2,365,095
Less allowance for doubtful accounts	(160,919)	(82,095)
	8,381,734	2,283,000
Less current receivables	(2,615,199)	(1,811,211)
	\$ 5,766,535	\$ 471,789

PPL has a \$250,000 note receivable dated August 1, 2015, from the buyer of Momentum Enterprises without interest. The note is payable in equal installments of \$50,000 annually through August 1, 2020. If the buyer sells the real estate included in the divestiture on or before July 31, 2019, PPL will receive a percentage of the purchase price as defined in the note agreement.

PPL Investment Corporation has a \$4,829,500 note receivable in connection with the New Markets Tax Credits (See Note 20) with 2% interest. Interest is payable monthly through the maturity date, October 20, 2024, at which time all remaining principal and accrued interest are due. The note is secured by a pledge of the borrower's interest in the CDE (See Note 20).

5. OTHER ASSETS

Other assets consist of the following:

	2017	2016
Tax credit fees, net	\$ 419,441	\$ 279,757
Beneficial interests in marketable securities held by community foundations	94,521	91,026
Other	114,378	73,025
	\$ 628,340	\$ 443,808

(Continued)

PROJECT FOR PRIDE IN LIVING, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2017
(With Comparative Totals for 2016)

6. INVESTMENTS IN PARTNERSHIPS AND LLC'S

In order to achieve its mission, PPL forms partnerships with for-profit investors. These partnerships own and operate apartment buildings in the Minneapolis and Saint Paul metropolitan area. PPL's interests in partnerships range from .01 to 1.0%. A number of the partnerships have raised capital through the sale of housing tax credits to for-profit investors.

In accordance with generally accepted accounting principles, PPL, as general partner, is considered to have a controlling interest in these partnerships. Accordingly, the partnerships have been included in these consolidated financial statements. At December 31, 2017, 24 partnerships have been consolidated.

PPL has a 50% interest in two LLC's at December 31, 2017 and 2016. Total assets were \$3,953,350 and \$5,089,172 and total liabilities were \$3,623,791 and \$4,606,224 at December 31, 2017 and 2016. Total revenue was \$209,528 and \$244,356 and net loss was \$157,798 and \$177,761 in 2017 and 2016.

7. PROPERTY UNDER DEVELOPMENT AND HELD FOR SALE

Property under development and held for sale consists of the following:

	2017	2016
PPL Homes – property held for sale	\$ 1,071,093	\$ 1,115,481
	2017	2016
Van Cleve – land held for development	\$ 1,404,061	\$ 1,657,677
Oxford Green – rental property in development	-	3,537,652
Affirmation House – property under rehabilitation	-	797,450
Youthlink – rental property in development	7,393,903	437,392
Hawthorne Ecovillage – rental property under construction	-	3,811,720
Ain Dah Young – rental property in pre-development	861,430	63,467
Family Partnership – rental property in pre-development	53,782	50,734
Other projects	35,287	-
Property under development	\$ 9,748,463	\$ 10,356,092

(Continued)

PROJECT FOR PRIDE IN LIVING, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2017
(With Comparative Totals for 2016)

8. IMPAIRMENT LOSS

PPL recorded an impairment loss of \$471,323 in 2017 relating to the Van Cleve land held for development. PPL plans to develop the property in two phases. The first phase of the project is expected to close in 2018. The second phase will be developed later. The impairment charge represents the difference between the carrying value of the asset and the fair value of the land based on the development plans and an appraisal conducted in 2017.

9. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	2017	2016	Estimated useful lives- years
Program facilities:			
Land	\$ 160,302	\$ 160,302	-
Buildings and improvements	7,621,324	7,621,324	10-30
Equipment	1,576,520	1,532,291	3-7
Construction in progress (Franklin)	2,355,889	940,221	
	11,714,035	10,254,138	
Less accumulated depreciation	(5,677,815)	(5,224,439)	
Program facilities, net	6,036,220	5,029,699	
 Rental properties:			
Land and land improvements	24,159,392	21,015,840	NA / 15
Buildings and improvements	182,261,913	153,997,375	15-40
Equipment	2,674,806	2,235,283	3-7
	209,096,111	177,248,498	
Less accumulated depreciation	(46,580,551)	(42,089,562)	
Rental properties, net	162,515,560	135,158,936	
Combined total	\$168,551,780	\$140,188,635	

Depreciation expense for the years ended December 31, 2017 and 2016, was \$5,207,117 and \$5,077,866.

Construction to convert the Franklin Theater building to a new Employment and Training Center began in 2017. The total budget for the project is approximately \$7,500,000 to be funded through the sale of New Markets Tax Credits and contributions.

(Continued)

PROJECT FOR PRIDE IN LIVING, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2017
(With Comparative Totals for 2016)

10. NOTES PAYABLE AND LINES OF CREDIT

Notes payable and lines of credit are used primarily for housing developments, are generally due upon sale and, except where designated, are secured by the underlying real estate.

	2017	2016
Bremer Bank term loan with interest at 4.57%, due December 2020. Monthly payments of \$5,246 are required. Secured by real estate.	\$ 424,196	\$ 466,424
BMO Harris Bank note payable with interest at 5.826%, due January 2023. Monthly payments of \$2,527. Secured by real estate.	203,817	247,399
\$1,000,000 Wells Fargo EQ2 note payable with interest at 2%, due on November 29, 2021. Unsecured.	1,000,000	1,000,000
\$1,250,000 US Bank EQ2 notes payable with interest at 2%, 2.5% and 3.8%, due on May 29, 2018 (in negotiations to refinance); March 7, 2019; and November 8, 2021. Unsecured.	1,250,000	1,250,000
\$500,000 BMO Harris Bank EQ2 note payable with interest at 4% due October 1, 2023. Unsecured.	500,000	500,000
\$500,000 Propel Nonprofits line of credit with interest at 5.5% matures on March 31, 2019. Secured by real estate and other assets.	100,000	100,000
GMHC predevelopment loans due in 2018 (\$150,000, \$350,000 and \$59,986) with interest at 3%. Secured by real estate.	559,986	559,986
\$300,000 Corporation for Supportive Housing predevelopment loan due in 2017 with interest at 6.5%. Secured by real estate.	-	300,000
LISC predevelopment financing note payable for up to \$2,000,000 for the Van Cleve project with interest at 6%, due January 1, 2019. Secured by real estate.	701,910	717,830
\$1,000,000 BMO Harris Bank line of credit with variable interest at LIBOR plus 3.25% (4.63% at December 31, 2017) matures on October 4, 2018. Secured by real estate.	-	750,000

(Continued)

PROJECT FOR PRIDE IN LIVING, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENT

For the Year Ended December 31, 2017
(With Comparative Totals for 2016)

10. NOTES PAYABLE AND LINES OF CREDIT (Continued)

	2017	2016
\$4,500,000 note payable to Sunrise Banks for Franklin Theater project with interest at 4.25%, due October 20, 2024. Prepayment of \$750,000 allowed for the first two years, and full payment afterwards. Secured by comprehensive campaign pledges and note receivable.	4,500,000	-
Government agency and other loans for housing projects.	1,000,498	950,896
	10,240,407	6,842,535
Less unamortized fees	(103,750)	-
	10,136,657	6,842,535
Less current maturities	(1,084,045)	(1,788,604)
	\$ 9,052,612	\$ 5,053,931

Maturities of notes payable and lines of credit are as follows:

	Amortizing	EQ2	Line of Credit	Pre- Development	Other	Total
2018	\$ 63,612	\$ 250,000	\$ -	\$ 691,191	\$ 79,242	\$ 1,084,045
2019	68,565	500,000	100,000	701,911	-	1,370,476
2020	350,080	-	-	-	-	350,080
2021	22,319	1,500,000	-	-	-	1,522,319
2022	23,674	-	-	-	-	23,674
Thereafter	99,763	500,000	-	-	5,290,050	5,889,813
	\$ 628,013	\$ 2,750,000	\$ 100,000	\$ 1,393,102	\$ 5,369,292	\$ 10,240,407

PPL is subject to debt covenants under the terms of various debt agreements. These covenants require, among other things, that PPL maintain certain levels of debt to equity and current ratios. Management believes these covenants have been met.

Interest expense for notes and mortgages for the years ended December 31, 2017 and 2016, was \$1,335,690 and \$1,405,672.

(Continued)

PROJECT FOR PRIDE IN LIVING, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENT

For the Year Ended December 31, 2017
(With Comparative Totals for 2016)

11. MORTGAGES PAYABLE

Mortgages payable consist of first, second, and third mortgages secured by rental properties, properties held for sale, or properties under development. Mortgages are primarily from government agencies.

Mortgages payable consist of the following:

	2017	2016
Amortizing mortgages on rental properties with interest rates of 0% to 9%, due in varying monthly installments through 2057.	\$ 13,235,480	\$ 13,429,211
Non-amortizing mortgages on rental properties with interest rates of 0% to 9%, with principal payments deferred through 2061.	93,745,464	72,829,325
	106,980,944	86,258,536
Less unamortized fees	(893,524)	(674,787)
	106,087,420	85,583,749
Less current maturities	(1,572,501)	(1,151,015)
	\$104,514,919	\$ 84,432,734

Maturities of mortgages payable are as follows:

2018	\$ 1,572,501
2019	269,199
2020	986,563
2021	970,913
2022	466,774
Construction loan to be paid with investor capital	6,683,085
Thereafter – 2023 through 2061	96,031,909
	\$ 106,980,944

Of the \$1,572,501 in current maturities, \$526,265 represents mortgages on properties held for sale. This amount will be repaid with proceeds from the sale of the related single family homes which are included in property held for sale.

(Continued)

PROJECT FOR PRIDE IN LIVING, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENT

For the Year Ended December 31, 2017
(With Comparative Totals for 2016)

11. MORTGAGES PAYABLE (Continued)

The construction loan of \$6,683,085 for Hawthorne Limited Partnership was repaid in May 2018 with an investor capital contribution.

12. LEASES

PPL leases space for program purposes under terms of month-to-month operating lease agreements. Rent expense was \$6,700 in 2017 and \$8,450 in 2016.

13. RETIREMENT PLAN

PPL has a 403(b) thrift plan covering employees with more than one year of service. Employer contributions are at the discretion of the Board of Directors. Contributions were \$102,998 in 2017 and \$163,257 in 2016.

14. NET ASSETS

Temporarily restricted net assets result from restrictions on contributions received from donors. The restrictions expire when the stated time has elapsed or purpose has been met. Temporarily restricted net assets are for the following purposes:

	<u>2017</u>	<u>2016</u>
Housing Services	\$ 135,000	\$ 215,500
Employment Readiness	564,710	244,070
Administration, time restricted	596,100	156,100
Building Ladders Comprehensive Campaign	<u>1,940,066</u>	<u>202,843</u>
	<u>\$ 3,235,876</u>	<u>\$ 818,513</u>

Permanently restricted net assets of \$155,659 in 2017 and 2016 result from restrictions on contributions received from donors. A portion of permanently restricted assets is included in other assets. Earnings are available for operating support and scholarships.

(Continued)

PROJECT FOR PRIDE IN LIVING, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENT

For the Year Ended December 31, 2017
(With Comparative Totals for 2016)

15. **GUARANTEES**

PPL issues guarantees in the course of developing properties with investor limited partners. The guarantees are issued in favor of limited partner investors or lenders.

Tax credit guarantees are commitments to compensate the investor limited partners if there is a shortfall or reduction in anticipated tax credits.

Operating deficit guarantees are commitments to fund future operating deficits of the partnership. The guarantees are issued to the tax credit limited partnerships, and generally are for three to five years after the project has achieved break-even operations, or a certain debt service coverage ratio.

Development completion guarantees are commitments to fund the development and lease up of a project if the expected amount of permanent financing is not received, or the cost of the development exceeds the expected financing and equity received.

Management regularly reviews the guarantees. Management has identified four current projects that could potentially trigger guarantees. Based on historical performance, management has determined the likelihood PPL will be required to fund a guarantee is minimal. Accordingly, no guarantees liability is recorded.

16. **COMMITMENTS AND CONTINGENCIES**

Housing tax credits for limited partnerships are contingent on maintaining compliance with applicable sections of Internal Revenue Code Section 42 over a fifteen year compliance period. Failure to maintain compliance with occupant eligibility or other requirements or to correct noncompliance within a specified time period could result in recapture of previously taken tax credits plus interest. In addition, such potential noncompliance may require repayment of capital contributed by investor limited partners.

PPL operates a self-funded Health Reimbursement Arrangement (HRA) plan for the benefit of its employees. Each employee is allocated a fixed amount to use for health insurance costs. Unused allocations from prior years are carried over to future years up to a certain amount. The funds allocated are tracked internally and are contingent upon use. Employees have no rights to the funds should they leave PPL. Because of the nature of the contingency, no liability has been recorded in these financial statements.

(Continued)

PROJECT FOR PRIDE IN LIVING, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENT

For the Year Ended December 31, 2017
(With Comparative Totals for 2016)

16. COMMITMENTS AND CONTINGENCIES (Continued)

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.

Several properties owned by PPL were funded with government grants and forgivable loans. These grants are subject to a number of requirements, including that properties be used as affordable housing for a period of time. Based on PPL's mission, management believes violation of the agreements and repayment of these grants and loans is not likely.

PPL is involved in litigation arising in the ordinary course of business. While the ultimate outcome of these matters is not presently determinable, it is the opinion of management that the resolution of outstanding claims will not have a material adverse effect on the financial position or changes in net assets of PPL.

17. CONCENTRATIONS

PPL places its cash with several financial institutions. The amount on deposit exceeds the insured limit of the institutions and exposes PPL to a credit risk. Management reviews the credit worthiness of financial institutions on a regular basis.

PPL operates in the Minneapolis and Saint Paul, Minnesota metropolitan area. All real estate owned and under development is located in that area.

18. UNITED WAY CONTRIBUTIONS

PPL has received funding commitments from the United Way for programs. This funding is contingent upon the United Way raising the funds and annual approval by the United Way board and will be recorded when approved.

The commitments are summarized below:

2018	\$ 524,008
2019	410,483
2020	<u>136,500</u>
	<u>\$ 1,070,991</u>

(Continued)

PROJECT FOR PRIDE IN LIVING, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENT

For the Year Ended December 31, 2017
(With Comparative Totals for 2016)

19. **DIVESTITURES**

During 2016, PPL assigned 100% of its membership interest in HDS Transition, LLC, to another nonprofit organization. The LLC operated Cabrini Transitional House whose net property balance was approximately \$500,000. The other nonprofit organization assumed the outstanding debt on the property. In addition, PPL transferred its Early Wonders Preschool program to another nonprofit organization. Total annual revenue from the preschool was approximately \$200,000.

During 2017, PPL Hague LLC, an entity wholly owned by PPL Properties, sold its land and building for \$1,442,000.

20. **NEW MARKETS TAX CREDITS FINANCING**

To partially fund the construction of the Franklin Theater project, PPL entered into a New Markets Tax Credit (NMTC) financing arrangement. The NMTC program is designed to spur new or increased investments into operating businesses and real estate projects located in low-income communities by offering investors a federal tax credit in exchange for the investments.

To earn the tax credit, the NMTC investor must remain invested for a seven-year period, which will end in 2024 for the project. As part of this financing arrangement, PPL Investment Corporation loaned \$4,829,500 to an investment fund. The loan was funded in part by a \$4,500,000 loan from Sunrise Banks. This investment fund in turn made a \$7,000,000 investment in a Community Development Entity (CDE) and holds a 99.99% investor member interest in the CDE. The CDE made a loan totaling \$6.86 million to PPL Admin LLC, a wholly owned subsidiary of PPL Properties, for the project.

PPL Investment Corporation and the investor entered into a put and call agreement to take place at the end of the seven-year tax credit period. Under the agreement, the NMTC investor can exercise a put option to sell all its interest in the investment fund to PPL Investment Corporation for \$1,000 plus costs. If the NMTC Investor does not exercise the put option, the agreement allows PPL Investment Corporation to exercise a call option to purchase the interest in the investment fund at an appraised fair market value.

PPL has guaranteed the amount of NMTC to be available to the investor.

(Continued)

PROJECT FOR PRIDE IN LIVING, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENT

For the Year Ended December 31, 2017
(With Comparative Totals for 2016)

21. **BUILDING LADDERS COMPREHENSIVE CAMPAIGN**

PPL embarked on the Building Ladders Comprehensive Campaign in 2016. The goal of the campaign is to raise \$12,400,000 through contributions and funding through NMTC. Funds will be used for the rehabilitation of the Franklin Theater building into a new Employment and Training Center (\$9M), equipment and campaign costs (\$1.5M), working capital for affordable housing (\$2M), program infrastructure investments (\$1.4M), plus investments in technology.

22. **DEVELOPMENTS**

Hawthorne Ecovillage and Oxford Village were placed into service during 2017. The limited partners have agreed to make capital contributions to the Partnerships. The capital contributions will be made once certain conditions have been met. For a detailed description of the conditions, see the Partnership Agreements. At December 31, 2017, remaining capital contributions expected to be paid in 2018 are \$6,868,039.

PPL Youthlink was in development at December 31, 2017. The total estimated cost of the project is approximately \$12,000,000. The project is to be funded by limited partner contributions and debt. At December 31, 2017, remaining capital contributions expected to be paid are \$2,316,291 in 2018 and \$652,066 in 2019.

Limited partner capital contributions were initially determined based upon an expectation of the amount and timing of housing tax credits.

The contributions are subject to adjustment depending on certain conditions being met, primarily related to the amount and timing of housing tax credits each Partnership is able to obtain. The contributions will be recorded when received.

23. **SUBSEQUENT EVENTS**

PPL has committed to purchasing a site on Sherburne Avenue from Twin Cities Land Bank on or before August 1, 2019. The property has an estimated acquisition cost of \$535,000.

In February 2018 PPL obtained a \$500,000 increase in its EQ2 loan from BMO Harris Bank.

Management has evaluated subsequent events through June 22, 2018, the date which the financial statements were available for issue, and identified no further significant events or transactions to disclose.

SUPPLEMENTARY CONSOLIDATING INFORMATION

PROJECT FOR PRIDE IN LIVING, INC.

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

December 31, 2017

	PPL, Inc.	PPL Investment Corp	PPL Properties	Partnerships	Eliminations	Total
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 1,588,669	\$ 45,480	\$ 1,205,532	\$ 2,891,545	\$ -	\$ 5,731,226
Cash - comprehensive campaign	205,219	-	-	-	-	205,219
Investments	1,396,211	-	-	-	-	1,396,211
Current portion of receivables, net	1,583,478	8,049	167,412	856,260	-	2,615,199
Current portion of due from other funds, net	1,791,875	-	-	-	(1,791,875)	-
Inventories	63,480	-	-	-	-	63,480
Property held for sale	-	-	1,071,093	-	-	1,071,093
Prepaid expenses	324,688	-	23,171	45,653	-	393,512
Total current assets	6,953,620	53,529	2,467,208	3,793,458	(1,791,875)	11,475,940
Cash held in construction escrows	-	-	5,153,224	3,279,637	-	8,432,861
Cash - custodial	135,966	-	171,513	547,665	-	855,144
Cash - comprehensive campaign	1,444,091	-	-	-	-	1,444,091
Property reserves	-	-	1,274,874	7,997,556	-	9,272,430
Receivables, less current portion, net	506,887	4,829,500	430,148	-	-	5,766,535
Other assets, net	147,331	-	8,009	473,000	-	628,340
Due from other funds, less current portion	3,086,618	-	9,331,005	-	(12,417,623)	-
Property under development	-	-	2,354,560	7,373,903	-	9,728,463
Property and equipment, net	362,355	-	26,865,637	141,323,788	-	168,551,780
Total assets	\$ 12,636,868	\$ 4,883,029	\$ 48,056,178	\$ 164,789,007	\$ (14,209,498)	\$ 216,155,584
LIABILITIES AND NET ASSETS						
Current liabilities:						
Accounts payable	\$ 109,314	\$ -	\$ 164,095	\$ 419,786	\$ -	\$ 693,195
Accrued payroll and related	344,714	-	-	-	-	344,714
Accrued real estate taxes	-	-	124,683	900,891	-	1,025,574
Other accrued liabilities	23,886	-	18,683	158,123	-	200,692
Current portion of deferred revenues	31,895	-	354,593	-	-	386,488
Current portion of accrued interest	7,562	15,938	27,269	-	-	50,769
Current portion of notes payable and lines of credit	992,854	-	91,191	-	-	1,084,045
Current portion of mortgages payable, net	-	-	1,407,666	164,835	-	1,572,501
Total current liabilities	1,510,225	15,938	2,188,180	1,643,635	-	5,357,978
Construction payables	-	-	345,501	2,871,278	-	3,216,779
Escrows and deposits	57,897	-	170,457	583,935	-	812,289
Deferred revenues, less current portion	641,224	-	293,125	1,026,941	-	1,961,290
Accrued interest, less current portion	188,745	-	3,074,983	4,407,555	-	7,671,283
Due to other funds	1,944,153	-	3,075,063	20,842,876	(25,862,092)	-
Notes payable and lines of credit, less current portion, net	3,349,321	4,396,249	1,307,042	-	-	9,052,612
Mortgages payable, less current portion, net	-	-	40,073,453	64,441,466	-	104,514,919
Total liabilities	7,691,565	4,412,187	50,527,804	95,817,686	(25,862,092)	132,587,150
Net assets:						
Unrestricted	1,553,768	470,842	(2,471,626)	1,550,951	11,652,594	12,756,529
Noncontrolling limited partner interests in partnerships	-	-	-	67,420,370	-	67,420,370
Temporarily restricted	3,235,876	-	-	-	-	3,235,876
Permanently restricted	155,659	-	-	-	-	155,659
Total net assets	4,945,303	470,842	(2,471,626)	68,971,321	11,652,594	83,568,434
Total liabilities and net assets	\$ 12,636,868	\$ 4,883,029	\$ 48,056,178	\$ 164,789,007	\$ (14,209,498)	\$ 216,155,584

See independent auditor's report.

PROJECT FOR PRIDE IN LIVING, INC.

CONSOLIDATING STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2017

	PPL, Inc.	PPL Investment Corporation	PPL Properties	Partnerships	Eliminations	Total
Revenues and support:						
Contributions	\$ 4,425,996	\$ -	\$ -	\$ -	\$ -	\$ 4,425,996
Government grants	7,791,919	-	446,609	270,214	-	8,508,742
United Way	574,348	-	-	-	-	574,348
Rental revenues	20,692	-	3,203,683	9,839,742	-	13,064,117
Sales	5,203	-	569,000	-	-	574,203
Program fees	439,994	-	-	-	-	439,994
Developer fees	2,060,266	-	-	-	-	2,060,266
Other income	199,022	-	179,261	140,820	-	519,103
Interest	32,423	19,050	9,947	13,535	-	74,955
Inter-entity revenue	5,936,936	-	668,437	23,400	(6,628,773)	-
Total revenues and support	21,486,799	19,050	5,076,937	10,287,711	(6,628,773)	30,241,724
Expenses:						
Program services	17,484,044	38,333	6,561,157	14,631,408	(7,585,309)	31,129,633
General and administrative	1,835,277	-	-	-	-	1,835,277
Fundraising	1,019,021	-	-	-	-	1,019,021
Total expenses	20,338,342	38,333	6,561,157	14,631,408	(7,585,309)	33,983,931
Change in net assets before nonoperating activity	1,148,457	(19,283)	(1,484,220)	(4,343,697)	956,536	(3,742,207)
Gain from investments	10,933	-	-	-	-	10,933
Loss from LLC investments	-	-	(97,491)	-	-	(97,491)
Gain of sale of Hague LLC property	-	-	1,167,840	-	-	1,167,840
Impairment loss on Van Cleve property	-	-	(471,323)	-	-	(471,323)
Capital contributions from noncontrolling interests, net	-	-	-	19,291,080	-	19,291,080
Capital contributions from PPL, Inc.	-	-	405,072	678,140	(1,083,212)	-
Comprehensive campaign contributions	2,227,347	-	-	-	-	2,227,347
Comprehensive campaign Franklin Theater	(490,125)	490,125	-	-	-	-
Transfer of JSI and PPL Bass Lake Court	-	-	(757,314)	757,314	-	-
Distributions	-	-	-	(59,990)	-	(59,990)
Change in net assets	2,896,612	470,842	(1,237,436)	16,322,847	(126,676)	18,326,189
Net assets, beginning of year	2,048,691	-	(1,234,190)	52,648,474	11,779,270	65,242,245
Net assets, end of year	\$ 4,945,303	\$ 470,842	\$ (2,471,626)	\$ 68,971,321	\$ 11,652,594	\$ 83,568,434

See independent auditor's report.

PROJECT FOR PRIDE IN LIVING, INC.

CONSOLIDATING STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2017

	Project for Pride in Living, Inc.			PPL Investments				Total Programs	General and administrative	Fundraising	Total
	Housing with services	Employment readiness	Other programs	Corp	PPL Properties	Partnerships	Eliminations				
Salaries	\$ 4,782,064	\$ 2,403,961	\$ 274,030	\$ -	\$ -	\$ -	\$ -	\$ 7,460,055	\$ 1,023,656	\$ 498,522	\$ 8,982,233
Payroll taxes	321,571	165,146	18,907	-	-	-	-	505,624	87,671	30,335	623,630
Employee benefits	805,413	408,673	46,585	-	-	-	-	1,260,671	174,022	84,749	1,519,442
Total salaries and related	5,909,048	2,977,780	339,522	-	-	-	-	9,226,350	1,285,349	613,606	11,125,305
Cost of goods sold	-	20,692	-	-	965,349	-	-	986,041	-	-	986,041
Direct service program costs	1,982,612	491,825	27,004	-	115,000	-	-	2,616,441	4,027	-	2,620,468
Professional fees	236,281	358,581	211,731	-	63,305	333,605	-	1,203,503	166,697	209,557	1,579,757
Office administration and support	186,549	66,874	226,516	-	18,391	74,115	-	572,445	134,107	19,706	726,258
Conferences and meetings	12,298	4,517	140	-	-	-	-	16,955	24,082	1,344	42,381
Staff development and appreciation	39,223	10,594	5,800	-	34	5,323	-	60,974	12,675	3,071	76,720
Marketing and promotion	-	11,977	776	-	-	-	-	12,753	1,350	122,025	136,128
Transportation	148,616	25,983	32,162	-	17,177	30,640	-	254,578	9,768	938	265,284
Bad debts / loss allowance	16,123	1,138	-	-	56,270	119,695	-	193,226	-	9,806	203,032
Insurance	18,063	-	-	-	141,355	306,114	-	465,532	75,379	-	540,911
Building operating expenses	213,168	35,833	-	-	1,923,026	6,211,941	-	8,383,968	-	-	8,383,968
Rent	-	6,700	-	-	2,400	-	-	9,100	-	-	9,100
Depreciation and amortization	2,940	-	121,498	-	1,369,129	4,126,991	-	5,620,558	-	-	5,620,558
Interest and other bank fees	127,957	53	-	38,333	584,011	902,422	-	1,652,776	15,244	-	1,668,020
Inter-entity expenses	2,736,646	863,044	13,780	-	1,305,710	2,520,562	(7,585,309)	(145,567)	106,599	38,968	-
	11,629,524	4,875,591	978,929	38,333	6,561,157	14,631,408	(7,585,309)	31,129,633	1,835,277	1,019,021	33,983,931
Remove inter-entity expenses	(2,882,213)	(863,044)	(13,780)	-	(1,305,710)	(2,520,562)	7,585,309	-	-	-	-
Total expenses	\$ 8,747,311	\$ 4,012,547	\$ 965,149	\$ 38,333	\$ 5,255,447	\$ 12,110,846	\$ -	\$ 31,129,633	\$ 1,835,277	\$ 1,019,021	\$ 33,983,931

See independent auditor's report.

PROJECT FOR PRIDE IN LIVING, INC.

CONSOLIDATING STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2017
Increase (Decrease) in Cash and Cash Equivalents

	Project for Pride in Living, Inc.	PPL Investment Corporation	PPL Properties	Partnerships	Eliminations	Total
Cash flows from operating activities:						
Change in net assets	\$ 2,896,612	\$ 470,842	\$ (1,237,436)	\$ 16,322,847	\$ (126,676)	\$ 18,326,189
Adjustments to reconcile the change in net assets to net cash from operating activities:						
Depreciation and amortization	124,438	-	1,369,129	4,126,991	-	5,620,558
Interest expense - amortization of finance fees	-	-	45,802	254,846	-	300,648
Income from investments	(10,933)	-	-	-	-	(10,933)
Loss from LLC investments	-	-	97,491	-	-	97,491
Gain on sale of Hague property	-	-	(1,167,840)	-	-	(1,167,840)
Impairment of Van Cleve property	-	-	471,323	-	-	471,323
Income from debt forgiveness	-	-	(81,754)	-	-	(81,754)
Bad debts	27,067	-	56,270	119,695	-	203,032
Amortization of deferred grant	-	-	(11,725)	(42,646)	-	(54,371)
Comprehensive campaign	(1,937,997)	-	-	-	-	(1,937,997)
Capital contributions, net	-	-	(405,072)	(19,969,220)	1,083,212	(19,291,080)
Changes in operating assets and liabilities:						
Receivables	(791,426)	(8,049)	103,279	(190,569)	-	(886,765)
Inventories	16,723	-	-	-	-	16,723
Prepaid expenses and other assets	(232,180)	-	112,566	12,407	-	(107,207)
Property held for sale	-	-	44,388	-	-	44,388
Accounts payable	(7,273)	-	45,169	66,518	-	104,414
Due to (from) other funds	1,731,160	(490,125)	3,953	97,156	(1,342,144)	-
Accrued expenses and other liabilities	(29,808)	15,937	(7,374)	(677,920)	-	(699,165)
Deferred revenues	(552,594)	-	(136,259)	-	-	(688,853)
Net cash from operating activities	<u>1,233,789</u>	<u>(11,395)</u>	<u>(698,090)</u>	<u>120,105</u>	<u>(385,608)</u>	<u>258,801</u>
Cash flows from investing activities:						
Purchase of property and equipment	(70,219)	-	(2,584,109)	(29,633,918)	-	(32,288,246)
Proceeds from sale of Hague property	-	-	1,442,000	-	-	1,442,000
Issuance of notes receivable	-	(4,829,500)	-	-	-	(4,829,500)
Collection of notes receivable	50,000	-	-	-	-	50,000
Withdrawals from (deposits to) escrows and reserves, net	-	-	(4,984,404)	(3,252,825)	-	(8,237,229)
Net cash from investing activities	<u>(20,219)</u>	<u>(4,829,500)</u>	<u>(6,126,513)</u>	<u>(32,886,743)</u>	<u>-</u>	<u>(43,862,975)</u>
Cash flows from financing activities:						
Proceeds from issuance of notes payable and lines of credit	20,000	4,500,000	31,205	-	-	4,551,205
Repayment of notes payable and lines of credit	(1,135,810)	-	(17,523)	-	-	(1,153,333)
Proceeds from issuance of mortgages payable	-	-	15,413,885	10,918,375	-	26,332,260
Repayment of mortgages payable	-	-	(1,610,344)	(3,924,725)	-	(5,535,069)
Comprehensive campaign	1,937,997	-	-	-	-	1,937,997
Transfer of cash for JSI and PPL Bass Lake Court	-	-	43,187	(43,187)	-	-
Advances from/payments to PPL	-	490,125	(6,738,500)	6,571,430	(323,055)	-
Payment of finance and tax credit fees	-	(103,750)	-	(703,094)	-	(806,844)
Capital contributions, net	-	-	405,072	19,969,220	(1,083,212)	19,291,080
Net cash from financing activities	<u>822,187</u>	<u>4,886,375</u>	<u>7,526,982</u>	<u>32,788,019</u>	<u>(1,406,267)</u>	<u>44,617,296</u>
Net increase in cash and cash equivalents	2,035,757	45,480	702,379	21,381	(1,791,875)	1,013,122
Cash and cash equivalents, beginning of year	<u>2,994,097</u>	<u>-</u>	<u>503,153</u>	<u>2,870,164</u>	<u>-</u>	<u>6,367,414</u>
Cash and cash equivalents, end of year	<u>\$ 5,029,854</u>	<u>\$ 45,480</u>	<u>\$ 1,205,532</u>	<u>\$ 2,891,545</u>	<u>\$ (1,791,875)</u>	<u>\$ 7,380,536</u>

See independent auditor's report.

PROJECT FOR PRIDE IN LIVING, INC.

**SCHEDULE OF EXPENDITURES OF FEDERAL
AWARDS AND RELATED REPORTS**

**FOR THE YEAR ENDED
DECEMBER 31, 2017**

PROJECT FOR PRIDE IN LIVING, INC.

**SCHEDULE OF EXPENDITURES OF FEDERAL
AWARDS AND RELATED REPORTS**

For the Year Ended December 31, 2017

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PROJECT FOR PRIDE IN LIVING, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended December 31, 2017

Federal Grantor/ Program or Cluster Title / Pass-through Grantor	CFDA Number	Pass Through Number	Federal Expenditures
Department of Agriculture, Food and Nutrition Service:			
Child Nutrition Cluster:			
National School Lunch Program	10.555		
Passed through State of Minnesota			\$ 21,269
SNAP Cluster:			
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561		
Passed through Minnesota Department of Human Services			29,237
Total Department of Agriculture			<u>50,506</u>
Department of Housing and Urban Development, Office of Community Planning and Development:			
CDBG – Entitlement Grants Cluster:			
Community Development Block Grants/Entitlement Grants	14.218		
Passed through City of Minneapolis, Minnesota			
Village Investments Two Project Loans		HD00393	1,247,700
Elliot Park Commons Project Loan		C-21586	1,204,237
PPL Learning Center Project Loan		BD0044	189,719
Hawthorne Project Loan		C-24464	79,241
Fremont Flats Project Loan		AA830017	59,781
Fremont Flats Project Loan		HD00923	624,231
Fremont Flats Project Loan		AA870033	637,704
			<u>4,042,613</u>
Community Development Block Grants/State’s Program	14.228		
Passed through Minnesota Department of Human Services			
Delancey/Selby Rental Assistance/Operating Subsidy Grant			<u>115,000</u>
Supportive Housing Program	14.235		
Direct:			
Cabrini/New Foundations Program Grant			512,357
Collaborative/Prosperity Village Program Grants			<u>433,259</u>
			<u>945,616</u>
HOME Investment Partnerships Program	14.239		
Passed through the Hennepin Housing Consortium			
Bass Lake Apartments Project Loan		A020492	350,000
No Place Like Home Project Loan		A040513	400,000
Passed through the HRA of Saint Paul, Minnesota			
Wilkins Townhomes Project Loan			150,000

(Continued)

PROJECT FOR PRIDE IN LIVING, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended December 31, 2017

Federal Grantor/ Program or Cluster Title / Pass-through Grantor	CFDA Number	Pass Through Number	Federal Expenditures
Delancey/Selby Stone Project Loan			1,000,000
Passed through City of Minneapolis, Minnesota			
Greenleaf AHTF Loan		C-27929	<u>300,000</u>
			2,200,000
Department of Housing and Urban Development, Office of Public and Indian Housing:			
Lower Income Housing Assistance Program – Section 8 Moderate Rehabilitation (<i>Section 8 Project-Based Cluster</i>)	14.856		
Passed through Minnesota Housing Financing Agency		MN46A003001	<u>204,368</u>
Total for Housing and Urban Development (All Offices)			<u>7,507,597</u>
Department of Labor, Employment and Training Administration:			
Workforce Investment Act (WIA) Adult Program	17.258		
Passed through City of Minneapolis		C-40413	<u>44,145</u>
Reintegration of Ex-Offenders	17.270		
Passed through Local Initiatives Support Corporation		40589-0112	<u>11,879</u>
Total for Department of Labor			<u>56,024</u>
Department of Education, Office of Elementary and Secondary Education:			
School Improvement Grants (MERC & LNAS HS)	84.377		
Passed through Minnesota Department of Education			<u>16,020</u>
Corporation for National and Community Service:			
Social Innovation Fund Grant	94.019		
Passed through Local Initiatives Support Corporation		40589-0097	18,253
Passed through Local Initiatives Support Corporation		40589-0098	103,457
Passed through Local Initiatives Support Corporation		40589-0100	542
Passed through Local Initiatives Support Corporation		40589-0101	30,914
Passed through Local Initiatives Support Corporation		40589-0107	13,080
Passed through Local Initiatives Support Corporation		40589-0108	15,000
Passed through Annie E Casey Foundation and Local Initiatives Support Corporation		216.7507	<u>163,097</u>
Total for Corporation for National and Community Service			<u>344,363</u>
Total Expenditures of Federal Awards			<u><u>\$ 7,974,510</u></u>

(Continued)

PROJECT FOR PRIDE IN LIVING, INC.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended December 31, 2017

Note 1: Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Project for Pride in Living, Inc. (PPL) and certain affiliates under programs of the federal government for the year ended December 31, 2017. PPL's consolidated financial statements include the operations of various for-profit entities and nonprofit entities. Certain of these entities receive federal awards which were excluded from the Schedule for the year ended December 31, 2017. The for-profit affiliates were excluded from the Schedule because for-profit entities are not required to follow Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the Uniform Guidance). Such entities followed the requirements of the *Consolidated Audit Guide for Audits of HUD Programs* (the "Guide") when required.

The information in this Schedule is presented in accordance with the requirements of the Uniform Guidance. Because the Schedule presents only a selected portion of the operations of PPL, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Project for Pride in Living, Inc. and affiliates.

Note 2: Summary of Significant Accounting Policies

(1) Expenditures reported on the Schedule are reported on the accrual basis of accounting, except for the loan balances as discussed below. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

(2) Pass-through entity identifying numbers are presented where available.

Note 3: Indirect Cost Rate

PPL has elected to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance when applicable.

Note 4: Loans

Federal expenditures for the Community Development Block Grants/Entitlement Grants and HOME Investment Partnerships programs include \$6,242,613 of loans outstanding from previous years for which the grantor imposes continuing compliance requirements. The loan balances are as of December 31, 2016. At December 31, 2017 and 2016, the loans funded by Community Development Block Grants/Entitlement Grants had a balance of \$4,023,492 and \$4,042,613, and the loans funded by the HOME Investment Partnerships program with a cumulative balance of \$2,200,000 did not change.



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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
Project for Pride in Living, Inc.
Minneapolis, Minnesota

We have audited the consolidated financial statements of Project for Pride in Living, Inc. and affiliates (PPL), which comprise the consolidated statement of financial position as of December 31, 2017, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to consolidated financial statements, and have issued our report thereon dated June 22, 2018. 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. The financial statements of affiliated limited partnerships were not audited in accordance with *Government Auditing Standards* and accordingly this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with affiliated limited partnerships.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered PPL's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of PPL's internal control. Accordingly, we do not express an opinion on the effectiveness of PPL's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

(Continued)

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that were not identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether PPL's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of PPL's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering PPL's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

June 22, 2018

*Mahoney Ulbich
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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Directors
Project for Pride in Living, Inc.
Minneapolis, Minnesota

Report on Compliance for Each Major Federal Program

We have audited Project for Pride in Living, Inc. and affiliates' (PPL) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of PPL's major federal programs for the year ended December 31, 2017. PPL's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

PPL's consolidated financial statements include the operations of affiliated limited partnerships, limited liability companies, and nonprofit organizations. A certain number of the for-profit limited partnerships receive Section 8 rental assistance and loans from the Department of Housing and Urban Development which are not included in PPL's Schedule of Expenditures of Federal Awards for the year ended December 31, 2017. Our audit, described below, did not include the operations of for-profit limited partnerships because for-profit entities are not required to follow the *Uniform Guidance*.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of PPL's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about PPL's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

(Continued)

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of PPL's compliance.

Opinion on Each Major Federal Program

In our opinion, PPL complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2017.

Report on Internal Control Over Compliance

Management of PPL is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered PPL's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of PPL's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

(Continued)

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the consolidated financial statements of PPL as of and for the year ended December 31, 2017, and have issued our report thereon dated June 22, 2018, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance, and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

June 22, 2018

*Mahoney Ulbrich
Christiansen Russ P.A.*

PROJECT FOR PRIDE IN LIVING, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended December 31, 2017

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor’s report issued: Unmodified

“Going concern” emphasis-of-matter paragraph included in the auditor's report? yes no

Internal control over financial reporting:

- Material weakness(es) identified? yes no
- Significant deficiency(s) identified? yes none reported

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes no
- Significant deficiency(s) identified? yes none reported

Type of auditor’s report issued on compliance for major programs Unmodified for each program

Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)? yes no

Major programs/Clusters:

- CFDA Number 14.235 – Supportive Housing Program
- CDBG - Entitlement Grants Cluster

Dollar threshold used to distinguish between type A and type B programs

Auditee qualified as low-risk auditee? yes no

(Continued)

PROJECT FOR PRIDE IN LIVING, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended December 31, 2017

SECTION II – FINDINGS – FINANCIAL STATEMENTS AUDIT

No matters were reported

SECTION III – FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

No matters were reported

SECTION IV – PRIOR AUDIT FINDINGS AND QUESTIONED COSTS

None