

**PROJECT FOR PRIDE IN LIVING, INC.**

**CONSOLIDATED FINANCIAL STATEMENTS  
WITH SUPPLEMENTARY CONSOLIDATING INFORMATION**

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

# PROJECT FOR PRIDE IN LIVING, INC.

## CONSOLIDATED FINANCIAL STATEMENTS WITH SUPPLEMENTARY CONSOLIDATING INFORMATION

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

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
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, 2018, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to consolidated financial statements.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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, 2018, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Change in Accounting Principle**

As discussed in Note 2 to the financial statements, Project for Pride in Living, Inc. has adopted Accounting Standards Update (ASU) No. 2016-14, Presentation of Financial Statements of Not-for-Profit Entities. Our opinion is not modified with respect to that matter.

**Other Matters***Report on Summarized Comparative Information*

We have previously audited the 2017 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 22, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*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 29 through 32 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 July 3, 2019, 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.

July 3, 2019

*Mahoney Ulbrich  
Christiansen Russ P.A.*

**PROJECT FOR PRIDE IN LIVING, INC.**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

December 31, 2018

(With Comparative Totals for 2017)

	2018	2017
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 6,947,214	\$ 5,731,226
Cash - comprehensive campaign	202,023	205,219
Investments	1,412,188	1,396,211
Current portion of receivables, net	2,774,709	2,615,199
Inventories	76,129	63,480
Property held for sale	339,537	1,071,093
Prepaid expenses	561,620	393,512
Total current assets	<u>12,313,420</u>	<u>11,475,940</u>
Cash held in construction escrows	2,076,668	8,432,861
Cash - custodial	931,455	855,144
Cash - comprehensive campaign	346,507	1,444,091
Property reserves	10,072,707	9,272,430
Receivables, less current portion, net	6,825,821	5,766,535
Other assets, net	691,007	628,340
Property under development	3,866,032	9,728,463
Property and equipment, net	<u>179,242,623</u>	<u>168,551,780</u>
 Total assets	 <u>\$ 216,366,240</u>	 <u>\$ 216,155,584</u>
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities:		
Accounts payable	\$ 650,107	\$ 693,195
Accrued payroll and related	398,330	344,714
Accrued real estate taxes	1,229,387	1,025,574
Other accrued liabilities	193,156	200,692
Current portion of deferred revenues	1,275,292	386,488
Current portion of accrued interest	59,698	50,769
Current portion of notes payable and lines of credit	2,156,378	1,084,045
Current portion of mortgages payable	366,071	1,572,501
Total current liabilities	<u>6,328,419</u>	<u>5,357,978</u>
Construction payables	1,364,535	3,216,779
Escrows and deposits	884,652	812,289
Deferred revenues, less current portion	2,148,798	1,961,290
Accrued interest, less current portion	8,152,737	7,671,283
Notes payable and lines of credit, less current portion, net	7,528,937	9,052,612
Mortgages payable, less current portion, net	100,714,693	104,514,919
Total liabilities	<u>127,122,771</u>	<u>132,587,150</u>
Net assets without donor restrictions:		
Undesignated	13,815,528	12,756,529
Noncontrolling limited partner interests	71,889,365	67,420,370
Total net assets without donor restrictions	<u>85,704,893</u>	<u>80,176,899</u>
Net assets with donor restrictions	3,538,576	3,391,535
Total net assets	<u>89,243,469</u>	<u>83,568,434</u>
 Total liabilities and net assets	 <u>\$ 216,366,240</u>	 <u>\$ 216,155,584</u>

See accompanying notes to consolidated financial statements.

**PROJECT FOR PRIDE IN LIVING, INC.**

CONSOLIDATED STATEMENT OF ACTIVITIES

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

	2018			2017
	Without Donor Restrictions	With Donor Restrictions	Total	
Revenues and support:				
Contributions	\$ 3,948,761	\$ 548,131	\$ 4,496,892	\$ 4,425,996
Net assets released from program and time restrictions	1,380,233	(1,380,233)	-	-
Government grants	8,642,381	-	8,642,381	8,508,742
United Way	523,800	-	523,800	574,348
Rental revenues	14,590,503	-	14,590,503	13,064,117
Sales	1,507,109	-	1,507,109	574,203
Program fees	455,951	-	455,951	439,994
Developer fees	1,246,026	-	1,246,026	2,060,266
Other income	1,052,078	-	1,052,078	519,103
Interest	151,639	-	151,639	74,955
Total revenues and support	33,498,481	(832,102)	32,666,379	30,241,724
Expenses:				
Program services:				
Housing with services	30,222,396	-	30,222,396	26,113,604
Employment readiness	4,937,857	-	4,937,857	4,050,880
Other programs	829,523	-	829,523	965,149
Total program services	35,989,776	-	35,989,776	31,129,633
General and administrative	2,268,873	-	2,268,873	1,835,277
Fundraising	1,027,332	-	1,027,332	1,019,021
Total expenses	39,285,981	-	39,285,981	33,983,931
Change in net assets before nonoperating activity	(5,787,500)	(832,102)	(6,619,602)	(3,742,207)
Gain from investments	(16,184)	-	(16,184)	10,933
Loss from LLC investments	-	-	-	(97,491)
Gain on sale of Hague property	-	-	-	1,167,840
Impairment loss on Van Cleve property	-	-	-	(471,323)
Loss on divestitures	(13,187)	-	(13,187)	-
Comprehensive campaign contributions	-	2,369,143	2,369,143	2,227,347
Net assets released from use restrictions	1,390,000	(1,390,000)	-	-
Noncontrolling limited partner interests in losses	5,485,870	-	5,485,870	3,544,897
Change in net assets for controlling interest	1,058,999	147,041	1,206,040	2,639,996
Capital contributions from noncontrolling interests, net	10,020,759	-	10,020,759	19,291,080
Distributions	(65,894)	-	(65,894)	(59,990)
Noncontrolling limited partner interests in losses	(5,485,870)	-	(5,485,870)	(3,544,897)
Change in net assets	5,527,994	147,041	5,675,035	18,326,189
Net assets, beginning of year	80,176,899	3,391,535	83,568,434	65,242,245
Net assets, end of year	\$ 85,704,893	\$ 3,538,576	\$ 89,243,469	\$ 83,568,434
Reconciliation of net assets:				
Noncontrolling interests:				
Beginning of year			\$ 67,420,370	\$ 51,734,177
Noncontrolling limited partner interests in losses			(5,485,870)	(3,544,897)
Capital contributions, net			10,020,759	19,291,080
Distributions			(65,894)	(59,990)
End of year			71,889,365	67,420,370
Controlling interest:				
Beginning of year			16,148,064	13,508,068
Change in net assets			1,206,040	2,639,996
End of year			17,354,104	16,148,064
Total			\$ 89,243,469	\$ 83,568,434

See accompanying notes to consolidated financial statements.

**PROJECT FOR PRIDE IN LIVING, INC.**

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

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

	2018						Total expenses	2017
	Program services			Total programs	General and administrative	Fund-raising		
	Housing with services	Employment readiness	Other programs	Total programs	General and administrative	Fund-raising	Total expenses	2017
Salaries	\$ 5,130,445	\$ 2,774,890	\$ 281,153	\$ 8,186,488	\$ 1,126,519	\$ 580,021	\$ 9,893,028	\$ 8,982,233
Payroll taxes	352,145	190,743	19,265	562,153	90,376	35,525	688,054	623,630
Employee benefits	829,498	448,648	45,457	1,323,603	182,137	93,779	1,599,519	1,519,442
<b>Total salaries and related</b>	<b>6,312,088</b>	<b>3,414,281</b>	<b>345,875</b>	<b>10,072,244</b>	<b>1,399,032</b>	<b>709,325</b>	<b>12,180,601</b>	<b>11,125,305</b>
Cost of sales	1,753,670	33,409	-	1,787,079	-	-	1,787,079	986,041
Rental and other client assistance	2,145,414	739,048	24,817	2,909,279	-	-	2,909,279	2,620,468
Professional fees and contracted services	611,022	318,699	185,919	1,115,640	286,876	148,576	1,551,092	1,579,757
Office administration and support	303,276	67,644	241,052	611,972	157,838	35,445	805,255	726,258
Conferences and meetings	5,768	19,199	-	24,967	34,550	1,119	60,636	42,381
Staff development and appreciation	57,012	21,181	3,287	81,480	36,425	3,324	121,229	76,720
Marketing and promotion	50	17,883	928	18,861	3,392	120,987	143,240	136,128
Transportation	201,109	23,717	21,510	246,336	14,404	1,365	262,105	265,284
Bad debts / loss allowance	307,763	8,953	-	316,716	30,194	-	346,910	203,032
Insurance	570,758	-	-	570,758	88,458	-	659,216	540,911
Building operations expenses	9,500,561	42,411	-	9,542,972	150,723	-	9,693,695	8,383,968
Rent	2,400	5,700	-	8,100	-	-	8,100	9,100
Depreciation and amortization	6,781,389	34,657	6,135	6,822,181	21,949	6,306	6,850,436	5,620,558
Interest and other bank fees	1,670,116	191,075	-	1,861,191	45,032	885	1,907,108	1,668,020
	<u>\$ 30,222,396</u>	<u>\$ 4,937,857</u>	<u>\$ 829,523</u>	<u>\$ 35,989,776</u>	<u>\$ 2,268,873</u>	<u>\$ 1,027,332</u>	<u>\$ 39,285,981</u>	<u>\$ 33,983,931</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, 2018  
(With Comparative Totals for 2017)  
Increase (Decrease) in Cash

	2018	2017
Cash flows from operating activities:		
Change in net assets	\$ 5,675,035	\$ 18,326,189
Adjustments to reconcile the change in net assets to net cash from operating activities:		
Depreciation and amortization	6,850,436	5,620,558
Interest expense - amortization of finance fees	125,321	300,648
Gain from investments	16,184	(10,933)
Loss from LLC investments	-	97,491
Gain on sale of Hague property	-	(1,167,840)
Impairment of Van Cleve property	-	471,323
Loss on divestiture of Mercado Central	13,187	-
Income from debt forgiveness	(326,771)	(81,754)
Bad debts	346,910	203,032
Amortization of deferred grant	(54,371)	(54,371)
Comprehensive campaign Franklin Theater	(2,369,143)	(1,937,997)
Capital contributions, net	(10,020,759)	(19,291,080)
Changes in operating assets and liabilities:		
Receivables	(1,615,706)	(886,765)
Inventories	(12,649)	16,723
Prepaid expenses and other assets	(284,815)	(107,207)
Property held for sale	731,556	44,388
Accounts payable	(43,088)	104,414
Accrued expenses and other liabilities	736,329	(699,165)
Deferred revenues	1,130,683	(688,853)
Net cash from operating activities	<u>898,339</u>	<u>258,801</u>
Cash flows from investing activities:		
Purchase of property and equipment	(13,066,794)	(32,288,246)
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	5,020,078	(8,237,229)
Net cash from investing activities	<u>(7,996,716)</u>	<u>(43,862,975)</u>
Cash flows from financing activities:		
Proceeds from issuance of notes payable and lines of credit	1,214,468	4,551,205
Repayment of notes payable and lines of credit	(1,684,338)	(1,153,333)
Proceeds from issuance of mortgages payable	5,859,539	26,332,260
Repayment of mortgages payable	(10,522,805)	(5,535,069)
Comprehensive campaign	2,369,143	1,937,997
Payment of finance and tax credit fees	(29,994)	(806,844)
Capital contributions from noncontrolling interests, net	10,007,572	19,291,080
Net cash from financing activities	<u>7,213,585</u>	<u>44,617,296</u>
Net increase in cash	115,208	1,013,122
Cash, beginning of year	7,380,536	6,367,414
Cash, end of year	<u>\$ 7,495,744</u>	<u>\$ 7,380,536</u>
Reconciliation to the statement of financial position:		
Cash and cash equivalents	\$ 6,947,214	\$ 5,731,226
Cash - comprehensive campaign	548,530	1,649,310
	<u>\$ 7,495,744</u>	<u>\$ 7,380,536</u>
Supplemental cash flow information:		
Cash paid for interest	\$ 1,415,839	\$ 973,953
Noncash investing and financing activities:		
Property additions in accounts payable and accrued liabilities	<u>\$ 1,633,523</u>	<u>\$ 3,216,779</u>

See accompanying notes to consolidated financial statements.

# PROJECT FOR PRIDE IN LIVING, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

### 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 1,500 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 credentialed 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 activity. Job seekers have opportunities to receive professional work attire through the Ready for Success program activity.

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. In addition to the two alternative schools, PPL also connects youth to education and training programs through Learn to Earn and Achieve Potential (LEAP), a collective impact model consisting of six alternative schools, Hennepin County, and Minneapolis Public Schools; and Step Up Youth Employment Program, a collaboration between the City of Minneapolis, AchieveMPLS, Minnesota Department of Employment and Economic Development (DEED), and PPL.

(Continued)

# PROJECT FOR PRIDE IN LIVING, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

### 1. ORGANIZATION (Continued)

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

### 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. PPL has adopted the pronouncement and adjusted the presentation of these statements accordingly. As a result, net assets previously reported as temporarily and permanently restricted are now called net assets with donor restrictions. The amount of such net assets did not change. Footnote disclosures have been expanded as required by the ASU. PPL opted not to disclose liquidity and availability information for 2017 as permitted under the ASU in the year of adoption.

**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:

- Net assets without donor restrictions are not restricted by donors or the donor-imposed restrictions have expired. Net assets without donor restrictions are available for programs and supporting services at the discretion of management and the board of directors.
- Net assets with donor restrictions are contributions restricted by donors for specific purposes or time periods. Some donor-imposed restrictions are temporary in nature, such as those that will be met with the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. When donor restrictions expire, that is, when a time restriction ends or a purpose restriction is fulfilled, net assets with donor restrictions are reclassified to net assets without donor restrictions on the statement of activities.

PPL has presented limited partner capital contributions, losses from divestitures, 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.

(Continued)

# PROJECT FOR PRIDE IN LIVING, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

**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.

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 net assets without restrictions and the change in net assets without restrictions.

**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 allowance for doubtful accounts, estimated useful lives of property and equipment, costs incurred by PPL relating to developer fee revenue, allocation of expenses by function, and the carrying amount of property under development and held for sale.

**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.

(Continued)

# PROJECT FOR PRIDE IN LIVING, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

**Cash - 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.

**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 \$354,568 in 2018 and \$262,980 in 2017 and are recorded with contributions.

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

(Continued)

# PROJECT FOR PRIDE IN LIVING, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

**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.

**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.

**Finance Fees** - Finance fees are amortized over the related term benefited using the straight-line method and reported as deductions from the face amount of the related debt. Amortization is included in interest expense on the statement of functional expenses.

**Contingent Liabilities** - PPL provides guarantees for operating deficits, tax credits and construction completion to investors in partnerships. Management believes there are no significant contingent liabilities to record.

**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.

(Continued)

# PROJECT FOR PRIDE IN LIVING, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

**Deferred 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 2018 and 2017 as noted on page 10.

**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 2018 and 2017.

**Contributions - Pledges** - Contributions are recognized when the donor makes an unconditional promise to give to PPL. Donor-restricted contributions are reported as increases in net assets with donor restrictions. When donor restrictions expire, that is, when a time restriction ends or a purpose restriction is fulfilled, net assets with donor restrictions are reclassified to net assets without restrictions on the statement of activities. Contributions with donor-imposed restrictions that expire in the same fiscal year the contribution is recognized are reported as net assets without donor restrictions.

Pledges receivable of \$1,638,155 are due in 2019, \$325,564 in 2020, \$102,667 in 2021, \$10,000 are due in 2022, and \$5,000 due in 2023. Pledges receivable of \$1,138,155 due in 2019 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.

(Continued)

# PROJECT FOR PRIDE IN LIVING, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

- 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.

**Functional Expenses** - Expenses are recorded to program and supporting services directly when possible. The financial statements include certain categories of expenses attributed to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated within the Statement of Functional Expenses include building operations expenses, which is allocated on a square footage basis; technology and related depreciation, which is allocated within office administrative and support based on number of computer users; phones, which is allocated within office administrative and support based on number of phones used by each program; and employees whose responsibilities cross functional areas, which are allocated based on time spent within programs.

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

(Continued)

# PROJECT FOR PRIDE IN LIVING, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

**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, 2017, from which the summarized information was derived.

**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).

**Reclassifications** - Reclassifications were made to the 2017 financial statements to be consistent with the current year financial statements. These reclassifications did not affect net assets or the change in net assets.

**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 2018 or 2017. Management believes PPL does not have any uncertain tax positions that are material to the financial statements.

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

(Continued)

## PROJECT FOR PRIDE IN LIVING, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

#### 3. LIQUIDITY AND AVAILABILITY OF RESOURCES

PPL's financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, are as follows:

	PPL	PPL Investment Corporation and Properties	Limited Partnerships	Consolidated
Cash and cash equivalents	\$ 2,467,897	\$ 1,220,353	\$ 3,258,954	\$ 6,947,204
Cash – comprehensive campaign	202,023	-	-	202,023
Investments	1,412,188	-	-	1,412,188
Receivables, net	1,742,694	165,242	-	1,907,936
Total financial assets available within one year	5,824,802	1,385,595	3,258,954	10,469,351
Less:				
Cash – internal reserves and escrows	-	-	(1,118,437)	(1,118,437)
Total financial assets available within one year	\$ 5,824,802	\$ 1,385,595	\$ 2,140,517	\$ 9,350,914

As part of PPL's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. PPL has invested excess cash in short-term investments. PPL currently has two lines of credit established which are solely used for housing development and not general expenditures.

Financial assets held by limited partnerships and limited liability companies are generally limited to use within the individual entities by investors or lenders and are not available to PPL. The consolidating organizations adopt an annual budget and anticipate collecting sufficient revenue to fund general expenditures. Budget to actual results are monitored each month. Individual entities with cash flow deficiencies are placed on a monitoring list whose operating performance is more heavily scrutinized by senior management.

Agreements require that escrows and reserves be funded to provide for significant recurring expenditures, and that reserves be funded for capital replacements for the properties and other nonrecurring expenditures and liquidity needs. In situations where agreements do not stipulate escrows and reserves, management has set aside funds themselves.

(Continued)

# PROJECT FOR PRIDE IN LIVING, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

### 4. INVESTMENTS

Investments consist of the following:

	<u>2018</u>	<u>2017</u>
Money market accounts	\$ 5,967	\$ 23,117
U.S. government money market fund	17,974	11,310
Municipal bonds	894,600	905,869
Bond mutual funds	224,224	199,224
Corporate stocks	260,257	242,306
International equities	9,166	14,385
	<u>\$ 1,412,188</u>	<u>\$ 1,396,211</u>

### 5. RECEIVABLES

Receivables consist of the following:

	<u>2018</u>	<u>2017</u>
Tenant receivables	\$ 459,768	\$ 568,962
Trade and other receivables	1,781,022	1,403,920
Notes receivable	4,929,500	4,979,500
Government grants receivable	535,550	601,115
Pledges receivable	2,076,385	989,156
	<u>9,782,225</u>	<u>8,542,653</u>
Less allowance for doubtful accounts	(181,695)	(160,919)
	<u>9,600,530</u>	<u>8,381,734</u>
Less current receivables	(2,774,709)	(2,615,199)
	<u>\$ 6,825,821</u>	<u>\$ 5,766,535</u>

(Continued)

# PROJECT FOR PRIDE IN LIVING, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

### 5. RECEIVABLES (Continued)

PPL has a \$250,000 note receivable dated August 1, 2015, from the buyer of Momentum Enterprises, a former subsidiary, 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. As of December 31, 2018, \$100,000 is outstanding on the note.

PPL Investment Corporation has a \$4,829,500 note receivable in connection with the New Markets Tax Credits (See Note 21) 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 21).

### 6. OTHER ASSETS

Other assets consist of the following:

	2018	2017
Tax credit fees, net	\$ 484,212	\$ 419,441
Beneficial interests in marketable securities held by community foundations	92,803	94,521
Other	113,992	114,378
	<u>\$ 691,007</u>	<u>\$ 628,340</u>

### 7. 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, 2018, 21 partnerships have been consolidated.

In addition, PPL Properties, wholly owns and operates apartment buildings incorporated as LLC's.

(Continued)

## PROJECT FOR PRIDE IN LIVING, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

#### 7. INVESTMENTS IN PARTNERSHIPS AND LLC'S (Continued)

PPL has a 50% interest in two LLC's at December 31, 2018 and 2017. Total assets were \$3,817,941 and \$3,953,350 and total liabilities were \$3,364,645 and \$3,623,791 at December 31, 2018 and 2017. Total revenue was \$199,275 and \$209,528 and net income (loss) was \$123,738 and (\$157,798) in 2018 and 2017.

#### 8. PROPERTY UNDER DEVELOPMENT AND HELD FOR SALE

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

	<u>2018</u>	<u>2017</u>
PPL Homes – property held for sale	<u>\$ 339,537</u>	<u>\$ 1,071,093</u>
	<u>2018</u>	<u>2017</u>
Van Cleve – rental property in development	\$ 2,019,686	\$ 1,404,061
Youthlink – rental property in development	-	7,393,903
Ain Dah Young – rental property in development	1,581,422	861,430
Sedgeview – rental property in pre-development	156,328	-
Family Partnership – rental property in pre-development	53,782	53,782
Other projects	<u>54,814</u>	<u>35,287</u>
Property under development	<u>\$ 3,866,032</u>	<u>\$ 9,748,463</u>

#### 9. 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 closed in 2018 with the sale of a portion of the land to a third party developer. The second phase is projected to close in 2019. 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.

(Continued)

## PROJECT FOR PRIDE IN LIVING, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

#### 10. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	2018	2017	Estimated useful lives- years
Program facilities:			
Land	\$ 1,025,307	\$ 200,124	-
Buildings and improvements	15,361,029	8,589,699	25-30
Equipment	2,334,932	1,576,520	3-5
Construction in progress (Franklin)	-	2,355,889	
	18,721,268	12,722,232	
Less accumulated depreciation	(7,006,599)	(6,593,476)	
Program facilities, net	11,714,669	6,128,756	
Rental properties:			
Land and land improvements	24,595,481	24,119,570	NA / 15
Buildings and improvements	190,491,274	181,293,539	25-40
Equipment	3,488,378	2,674,806	3-7
	218,575,133	208,087,915	
Less accumulated depreciation	(51,047,179)	(45,664,891)	
Rental properties, net	167,527,954	162,423,024	
Combined total	\$179,242,623	\$168,551,780	

Depreciation expense for the years ended December 31, 2018 and 2017, was \$6,554,040 and \$5,616,963.

Construction to convert the Franklin Theater building to a new Employment and Training Center began in 2017 and was completed in 2018. The total budget for the project was approximately \$7,500,000 which was primarily funded by funds from the Building Ladders Comprehensive Campaign, as well as through the sale of New Markets Tax Credits, debt, and contributions.

(Continued)

## PROJECT FOR PRIDE IN LIVING, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

#### 11. 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.

	2018	2017
Bremer Bank term loan with interest at 4.57%, due December 2020. Monthly payments of \$5,246 are required. Secured by real estate.	\$ 379,940	\$ 424,196
BMO Harris Bank note payable with interest at 5.826%, due January 2023. Monthly payments of \$2,527. Secured by real estate.	186,680	203,817
\$1,000,000 Wells Fargo EQ2 note payable with interest at 2%, due on November 29, 2021. Quarterly payments of \$125,000 begin November 2019. Unsecured.	1,000,000	1,000,000
\$1,250,000 US Bank EQ2 notes payable with interest at 3% and 3.8%, due on May 29, 2023 and March 7, 2022. Unsecured.	1,250,000	1,250,000
\$1,000,000 BMO Harris Bank EQ2 note payable with interest at 4% due March 31, 2023. Unsecured.	1,000,000	500,000
\$500,000 Propel Nonprofits line of credit with interest at 5.5% matures on July 31, 2019, and is expected to be renewed. Secured by real estate and other assets.	351,435	100,000
GMHC predevelopment loans due in 2019, when project development begins, (\$150,000, \$350,000 and \$59,986) with interest at 3%. Secured by real estate.	319,512	559,986
LISC predevelopment financing note payable for up to \$1,690,000 for the Van Cleve project with interest at 6%, due August 1, 2019. Secured by real estate.	664,944	701,910

(Continued)

## PROJECT FOR PRIDE IN LIVING, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

#### 11. NOTES PAYABLE AND LINES OF CREDIT (Continued)

	2018	2017
\$500,000 predevelopment financing note payable with the Housing Partnership Fund, Inc. for the Van Cleve project with interest at 6.5%. Unsecured.	500,000	-
\$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.	3,200,000	4,500,000
Government agency and other loans for housing projects.	918,025	1,000,498
	9,770,536	10,240,407
Less unamortized fees	(85,222)	(103,750)
	9,685,314	10,136,657
Less current maturities	(2,156,377)	(1,084,045)
	\$ 7,528,937	\$ 9,052,612

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

	Amortizing	EQ2/CRA	Line of Credit	Pre- Development	Other	Total
2019	\$ 66,245	\$ 125,000	\$ 351,435	\$ 1,534,456	\$ 79,241	\$ 2,156,377
2020	354,550	500,000	-	-	-	854,550
2021	22,319	375,000	-	-	-	397,319
2022	23,674	500,000	-	-	-	523,674
2023	99,833	750,000	-	-	-	849,833
Thereafter	-	1,000,000	-	-	3,988,784	4,988,784
	\$ 566,621	\$3,250,000	\$ 351,435	\$ 1,534,456	\$4,068,025	\$9,770,537

PPL also has a \$1,000,000 line of credit with BMO Harris Bank with interest at LIBOR plus 3.25% maturing October 4, 2019. No funds were drawn as of December 31, 2018 and 2017.

(Continued)

# PROJECT FOR PRIDE IN LIVING, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

### 12. MORTGAGES PAYABLE

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, 2018 and 2017, was \$1,485,520 and \$1,335,690.

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:

	<u>2018</u>	<u>2017</u>
Amortizing mortgages on rental properties with interest rates of 0% to 9%, due in varying monthly installments through 2058.	\$ 16,326,442	\$ 13,235,480
Non-amortizing mortgages on rental properties with interest rates of 0% to 9%, with principal payments deferred through 2061.	<u>85,508,453</u>	<u>93,745,464</u>
	101,834,895	106,980,944
Less unamortized fees	<u>(754,131)</u>	<u>(893,524)</u>
	101,080,764	106,087,420
Less current maturities	<u>(366,071)</u>	<u>(1,572,501)</u>
	<u>\$100,714,693</u>	<u>\$104,514,919</u>

(Continued)

## PROJECT FOR PRIDE IN LIVING, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

#### 12. MORTGAGES PAYABLE (Continued)

Maturities of mortgages payable are as follows:

2019	\$	366,071
2020		1,032,241
2021		1,025,820
2022		314,698
2023		327,707
Thereafter – 2024 through 2061		<u>98,768,358</u>
		<u><u>\$ 101,834,895</u></u>

#### 13. NET ASSETS

Net assets with donor restrictions are available for the following purposes or time periods:

	2018	2017
<b>Subject to expenditure for specified purpose:</b>		
Housing Services	\$ 696,250	\$ 135,000
Employment Readiness	206,390	564,710
Building Ladders Comprehensive Campaign	<u>2,110,277</u>	<u>1,940,066</u>
	3,012,917	2,639,776
<b>Subject to the passage of time:</b>		
For the period after December 31, 2018	370,000	596,100
<b>To be held in perpetuity:</b>		
Scholarships and operating support	<u>155,659</u>	<u>155,659</u>
	<u><u>\$ 3,538,576</u></u>	<u><u>\$ 3,391,535</u></u>

Net assets of \$155,659 in 2018 and 2017 to be held in perpetuity result from restrictions on contributions received from donors. A portion of restricted net 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 STATEMENTS

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

### 14. LEASES

PPL leases space for program purposes under terms of month-to-month operating lease agreements. Rent expense was \$5,700 in 2018 and \$6,700 in 2017.

### 15. 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 \$180,714 in 2018 and \$102,998 in 2017.

### 16. 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 liability is recorded.

### 17. COMMITMENTS AND CONTINGENCIES

PPL has a commitment to purchase a site on Bloomington Avenue from Twin Cities Land Bank on or before November 30, 2019. The property has an estimated acquisition cost of \$1,082,439.

(Continued)

# PROJECT FOR PRIDE IN LIVING, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

### 17. **COMMITMENTS AND CONTINGENCIES (Continued)**

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.

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.

### 18. **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.

(Continued)

# PROJECT FOR PRIDE IN LIVING, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

### 19. **CONDITIONAL CONTRIBUTIONS**

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

The United Way commitments are summarized below:

2019	\$ 542,939
2020	<u>269,165</u>
	<u>\$ 812,104</u>

During 2018 PPL received a conditional promise to give which consists of a \$500,000 challenge grant for gifts and pledges received, designated for the Building Ladders Comprehensive Campaign, two years from the date of the award letter. Conditional promises to give are not included in revenue and support until the conditions are substantially met.

### 20. **DIVESTITURES**

During 2018, PPL divested its interest in Mercado Central LLC to another entity for no consideration.

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

### 21. **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.

(Continued)

# PROJECT FOR PRIDE IN LIVING, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

### 21. **NEW MARKETS TAX CREDITS FINANCING (Continued)**

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.

### 22. **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 by 2020 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.

As of December 31, 2018, PPL has raised approximately \$8,700,000 of its goal.

### 23. **DEVELOPMENTS**

PPL Youthlink LP was placed in service in 2018. The limited partner has agreed to make capital contributions to the Partnership. The capital contributions will be made once certain conditions have been met. For a detailed description of the conditions, see the Partnership Agreement. At December 31, 2018, remaining capital contributions expected to be in 2019 are \$583,632 and \$605,816 in 2021.

Hawthorne EcoVillage LP was placed in service in 2018. The limited partner has agreed to make capital contributions to the Partnership. The capital contributions will be made once certain conditions have been met. For a detailed description of the conditions, see the Partnership Agreement. At December 31, 2018, remaining capital contributions expected to be in 2019 are \$500,012.

(Continued)

## **PROJECT FOR PRIDE IN LIVING, INC.**

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

#### 23. **DEVELOPMENTS (Continued)**

ADYC Supportive Housing Project was in development at December 31, 2018. The total estimated cost of the project is approximately \$13,675,000. The project is to be funded by limited partner contributions, a grant, and debt. At December 31, 2018, remaining capital contributions expected to be paid are \$7,910,483 in 2019, \$656,517 in 2020, and \$615,371 in 2022.

The limited partner 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.

#### 24. **SUBSEQUENT EVENTS**

PPL has a purchase agreement with a nonprofit organization for the sale of the Loring-Nicollet Community Center LLC for \$1,400,000. The closing date is expected to take place July 31, 2019.

Management has evaluated subsequent events through July 3, 2019, the date which the financial statements were available for issue.

**SUPPLEMENTARY CONSOLIDATING INFORMATION**

**PROJECT FOR PRIDE IN LIVING, INC.**

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

December 31, 2018

ASSETS	PPL, Inc.	PPL Investment Corp	PPL Properties	Partnerships	Eliminations	Total
Current assets:						
Cash and cash equivalents	\$ 2,467,897	\$ -	\$ 1,220,353	\$ 3,258,964	\$ -	\$ 6,947,214
Cash - comprehensive campaign	202,023	-	-	-	-	202,023
Investments	1,412,188	-	-	-	-	1,412,188
Current portion of receivables, net	1,742,694	8,049	157,193	866,773	-	2,774,709
Current portion of due from other funds, net	2,085,965	-	-	-	(2,085,965)	-
Inventories	76,129	-	-	-	-	76,129
Property held for sale	-	-	339,537	-	-	339,537
Prepaid expenses	412,825	-	31,317	117,478	-	561,620
Total current assets	<u>8,399,721</u>	<u>8,049</u>	<u>1,748,400</u>	<u>4,243,215</u>	<u>(2,085,965)</u>	<u>12,313,420</u>
Cash held in construction escrows	-	-	596,604	1,480,064	-	2,076,668
Cash - custodial	114,952	-	183,648	632,855	-	931,455
Cash - comprehensive campaign	298,427	48,080	-	-	-	346,507
Property reserves	-	-	1,663,436	8,409,271	-	10,072,707
Receivables, less current portion, net	1,583,052	4,829,500	413,269	-	-	6,825,821
Other assets, net	124,344	-	14,557	552,106	-	691,007
Due from other funds, less current portion	2,711,527	12,011	2,547,740	-	(5,271,278)	-
Property under development	-	-	2,279,144	1,586,888	-	3,866,032
Property and equipment, net	<u>1,078,624</u>	<u>-</u>	<u>30,696,877</u>	<u>147,467,122</u>	<u>-</u>	<u>179,242,623</u>
Total assets	<u>\$ 14,310,647</u>	<u>\$ 4,897,640</u>	<u>\$ 40,143,675</u>	<u>\$ 164,371,521</u>	<u>\$ (7,357,243)</u>	<u>\$ 216,366,240</u>
<b>LIABILITIES AND NET ASSETS</b>						
Current liabilities:						
Accounts payable	\$ 221,746	\$ -	\$ 109,319	\$ 319,042	\$ -	\$ 650,107
Accrued payroll and related	398,330	-	-	-	-	398,330
Accrued real estate taxes	-	-	122,261	1,107,126	-	1,229,387
Other accrued liabilities	17,249	-	40,929	134,978	-	193,156
Current portion of deferred revenues	226,956	-	948,638	99,698	-	1,275,292
Current portion of accrued interest	15,168	15,937	966	27,627	-	59,698
Current portion of due to other funds	-	-	945,311	1,140,654	(2,085,965)	-
Current portion of notes payable and lines of credit	991,434	-	1,164,944	-	-	2,156,378
Current portion of mortgages payable, net	-	-	156,658	209,413	-	366,071
Total current liabilities	<u>1,870,883</u>	<u>15,937</u>	<u>3,489,026</u>	<u>3,038,538</u>	<u>(2,085,965)</u>	<u>6,328,419</u>
Construction payables	-	-	446,517	918,018	-	1,364,535
Escrows and deposits	65,422	-	182,806	636,424	-	884,652
Deferred revenues, less current portion	964,409	-	281,400	902,989	-	2,148,798
Accrued interest, less current portion	-	-	3,341,208	4,811,529	-	8,152,737
Due to other funds, less current portion	1,339,637	-	2,465,793	13,269,010	(17,074,440)	-
Notes payable and lines of credit, less current portion, net	3,810,296	3,114,777	603,864	-	-	7,528,937
Mortgages payable, less current portion, net	-	-	33,976,792	66,737,901	-	100,714,693
Total liabilities	<u>8,050,647</u>	<u>3,130,714</u>	<u>44,787,406</u>	<u>90,314,409</u>	<u>(19,160,405)</u>	<u>127,122,771</u>
Net assets without donor restrictions:						
Undesignated	2,721,424	1,766,926	(4,643,731)	2,167,747	11,803,162	13,815,528
Noncontrolling limited partner interests in partnerships	-	-	-	71,889,365	-	71,889,365
Net assets with donor restrictions	<u>3,538,576</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,538,576</u>
Total net assets	<u>6,260,000</u>	<u>1,766,926</u>	<u>(4,643,731)</u>	<u>74,057,112</u>	<u>11,803,162</u>	<u>89,243,469</u>
Total liabilities and net assets	<u>\$ 14,310,647</u>	<u>\$ 4,897,640</u>	<u>\$ 40,143,675</u>	<u>\$ 164,371,521</u>	<u>\$ (7,357,243)</u>	<u>\$ 216,366,240</u>

See independent auditor's report.

**PROJECT FOR PRIDE IN LIVING, INC.**

CONSOLIDATING STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2018

	PPL, Inc.	PPL Investment Corporation	PPL Properties	Partnerships	Eliminations	Total
Revenues and support:						
Contributions	\$ 4,496,892	\$ -	\$ -	\$ -	\$ -	\$ 4,496,892
Government grants	8,102,288	-	179,485	360,608	-	8,642,381
United Way	523,800	-	-	-	-	523,800
Rental revenues	1,640	-	3,242,157	11,346,706	-	14,590,503
Sales	33,409	-	1,473,700	-	-	1,507,109
Program fees	455,951	-	-	-	-	455,951
Developer fees	1,246,026	-	-	-	-	1,246,026
Other income	153,885	-	349,786	548,407	-	1,052,078
Interest	18,167	96,590	16,822	20,060	-	151,639
Inter-entity revenue	5,506,678	-	352,560	10,609	(5,869,847)	-
Total revenues and support	<u>20,538,736</u>	<u>96,590</u>	<u>5,614,510</u>	<u>12,286,390</u>	<u>(5,869,847)</u>	<u>32,666,379</u>
Expenses:						
Program services	16,622,667	190,506	7,575,837	17,789,185	(6,188,419)	35,989,776
General and administrative	2,477,074	-	-	-	(208,201)	2,268,873
Fundraising	1,053,924	-	-	-	(26,592)	1,027,332
Total expenses	<u>20,153,665</u>	<u>190,506</u>	<u>7,575,837</u>	<u>17,789,185</u>	<u>(6,423,212)</u>	<u>39,285,981</u>
Change in net assets before nonoperating activity	385,071	(93,916)	(1,961,327)	(5,502,795)	553,365	(6,619,602)
Loss from investments	(16,184)	-	-	-	-	(16,184)
Capital contributions from noncontrolling interests, net	-	-	-	10,020,759	-	10,020,759
Capital contributions from PPL, Inc.	-	-	46,485	646,908	(693,393)	-
Comprehensive campaign contributions	2,369,143	-	-	-	-	2,369,143
Comprehensive campaign Franklin Theater	(1,423,333)	1,390,000	33,333	-	-	-
Divestiture of Mercado Central	-	-	-	(13,187)	-	(13,187)
Distributions	-	-	(290,596)	(65,894)	290,596	(65,894)
Change in net assets	1,314,697	1,296,084	(2,172,105)	5,085,791	150,568	5,675,035
Net assets, beginning of year	<u>4,945,303</u>	<u>470,842</u>	<u>(2,471,626)</u>	<u>68,971,321</u>	<u>11,652,594</u>	<u>83,568,434</u>
Net assets, end of year	<u>\$ 6,260,000</u>	<u>\$ 1,766,926</u>	<u>\$ (4,643,731)</u>	<u>\$ 74,057,112</u>	<u>\$ 11,803,162</u>	<u>\$ 89,243,469</u>

See independent auditor's report.

**PROJECT FOR PRIDE IN LIVING, INC.**

CONSOLIDATING STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2018

	Project for Pride in Living, Inc.			PPL Investment Corp	PPL Properties	Partnerships	Total Programs	General and administrative	Fundraising	Eliminations	Total
	Housing with services	Employment readiness	Other programs								
Salaries	\$ 5,130,445	\$ 2,774,890	\$ 281,153	\$ -	\$ -	\$ -	\$ 8,186,488	\$ 1,126,519	\$ 580,021	\$ -	\$ 9,893,028
Payroll taxes	352,145	190,743	19,265	-	-	-	562,153	90,376	35,525	-	688,054
Employee benefits	829,498	448,648	45,457	-	-	-	1,323,603	182,137	93,779	-	1,599,519
<b>Total salaries and related</b>	<b>6,312,088</b>	<b>3,414,281</b>	<b>345,875</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>10,072,244</b>	<b>1,399,032</b>	<b>709,325</b>	<b>-</b>	<b>12,180,601</b>
Cost of goods sold	-	33,409	-	-	1,753,670	-	1,787,079	-	-	-	1,787,079
Rental and other direct client assistance	2,145,414	739,048	24,817	-	-	-	2,909,279	-	-	-	2,909,279
Professional fees and contracted services	191,536	318,699	185,919	-	39,042	380,444	1,115,640	286,876	148,576	-	1,551,092
Office administration and support	202,825	67,644	241,052	-	17,455	82,996	611,972	157,838	35,445	-	805,255
Conferences and meetings	5,768	19,199	-	-	-	-	24,967	34,550	1,119	-	60,636
Staff development and appreciation	51,623	21,181	3,287	-	-	5,389	81,480	36,425	3,324	-	121,229
Marketing and promotion	50	17,883	928	-	-	-	18,861	3,392	120,987	-	143,240
Transportation	151,510	23,717	21,510	-	15,100	34,499	246,336	14,404	1,365	-	262,105
Bad debts / loss allowance	11,513	8,953	-	-	136,844	159,406	316,716	30,194	-	-	346,910
Insurance	8,273	-	-	-	147,074	415,411	570,758	88,458	-	-	659,216
Building operating expenses	168,158	42,411	-	-	1,997,327	7,335,076	9,542,972	150,723	-	-	9,693,695
Rent	-	5,700	-	-	2,400	-	8,100	-	-	-	8,100
Depreciation and amortization	58,885	34,657	6,135	-	1,490,999	5,231,505	6,822,181	21,949	6,306	-	6,850,436
Interest and other bank fees	152,180	569	-	190,506	427,932	1,090,004	1,861,191	45,032	885	-	1,907,108
Inter-entity expenses	959,154	620,120	6,696	-	1,547,994	3,054,455	6,188,419	208,201	26,592	(6,423,212)	-
Remove inter-entity expenses	10,418,977 (959,154)	5,367,471 (620,120)	836,219 (6,696)	190,506 -	7,575,837 (1,547,994)	17,789,185 (3,054,455)	42,178,195 (6,188,419)	2,477,074 (208,201)	1,053,924 (26,592)	(6,423,212) 6,423,212	39,285,981 -
<b>Total expenses</b>	<b>\$ 9,459,823</b>	<b>\$ 4,747,351</b>	<b>\$ 829,523</b>	<b>\$ 190,506</b>	<b>\$ 6,027,843</b>	<b>\$ 14,734,730</b>	<b>\$ 35,989,776</b>	<b>\$ 2,268,873</b>	<b>\$ 1,027,332</b>	<b>\$ -</b>	<b>\$ 39,285,981</b>

See independent auditor's report.

**PROJECT FOR PRIDE IN LIVING, INC.**

CONSOLIDATING STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2018

Increase (Decrease) in Cash

	Project for Pride in Living, Inc.	PPL Investment Corporation	PPL Properties	Partnerships	Eliminations	Total
Cash flows from operating activities:						
Change in net assets	\$ 1,314,697	\$ 1,296,084	\$ (2,172,105)	\$ 5,085,791	\$ 150,568	\$ 5,675,035
Adjustments to reconcile the change in net assets to net cash from operating activities:						
Depreciation and amortization	127,932	-	1,490,999	5,231,505	-	6,850,436
Interest expense - amortization of finance fees	-	18,527	3,767	103,027	-	125,321
Loss from investments	16,184	-	-	-	-	16,184
Loss on divestiture of Mercado Central	-	-	-	13,187	-	13,187
Income from debt forgiveness	-	-	(326,771)	-	-	(326,771)
Bad debts	50,660	-	136,844	159,406	-	346,910
Amortization of deferred grant	-	-	(11,725)	(42,646)	-	(54,371)
Comprehensive campaign	(2,369,143)	(1,390,000)	-	-	1,390,000	(2,369,143)
Capital contributions, net	-	-	(46,485)	(10,667,667)	693,393	(10,020,759)
Changes in operating assets and liabilities:						
Receivables	(1,336,041)	-	(109,746)	(169,919)	-	(1,615,706)
Inventories	(12,649)	-	-	-	-	(12,649)
Prepaid expenses and other assets	(97,311)	-	(36,573)	(150,931)	-	(284,815)
Property held for sale	-	-	731,556	-	-	731,556
Accounts payable	112,432	-	(54,776)	(100,744)	-	(43,088)
Due to (from) other funds	(523,515)	(12,011)	336,041	170,637	28,848	-
Accrued expenses and other liabilities	(105,621)	-	259,960	581,990	-	736,329
Deferred revenues	518,246	-	594,045	18,392	-	1,130,683
Net cash from operating activities	<u>(2,304,129)</u>	<u>(87,400)</u>	<u>795,031</u>	<u>232,028</u>	<u>2,262,809</u>	<u>898,339</u>
Cash flows from investing activities:						
Purchase of property and equipment	(844,201)	-	(5,008,612)	(7,213,981)	-	(13,066,794)
Collection of notes receivable	50,000	-	-	-	-	50,000
Withdrawals from (deposits to) escrows and reserves, net	-	-	4,168,620	851,458	-	5,020,078
Net cash from investing activities	<u>(794,201)</u>	<u>-</u>	<u>(839,992)</u>	<u>(6,362,523)</u>	<u>-</u>	<u>(7,996,716)</u>
Cash flows from financing activities:						
Proceeds from issuance of notes payable and lines of credit	751,435	-	463,033	-	-	1,214,468
Repayment of notes payable and lines of credit	(291,880)	(1,300,000)	(92,458)	-	-	(1,684,338)
Proceeds from issuance of mortgages payable	-	-	678,841	5,180,698	-	5,859,539
Repayment of mortgages payable	-	-	(697,286)	(9,825,519)	-	(10,522,805)
Comprehensive campaign	2,369,143	-	-	-	-	2,369,143
Advances from/payments to PPL	-	1,390,000	(338,833)	518,249	(1,569,416)	-
Payment of finance and tax credit fees	-	-	-	(29,994)	-	(29,994)
Capital contributions, net	-	-	46,485	10,654,480	(693,393)	10,007,572
Net cash from financing activities	<u>2,828,698</u>	<u>90,000</u>	<u>59,782</u>	<u>6,497,914</u>	<u>(2,262,809)</u>	<u>7,213,585</u>
Net increase (decrease) in cash	(269,632)	2,600	14,821	367,419	-	115,208
Cash, beginning of year	<u>3,237,979</u>	<u>45,480</u>	<u>1,205,532</u>	<u>2,891,545</u>	<u>-</u>	<u>7,380,536</u>
Cash, end of year	\$ <u>2,968,347</u>	\$ <u>48,080</u>	\$ <u>1,220,353</u>	\$ <u>3,258,964</u>	\$ <u>-</u>	\$ <u>7,495,744</u>
Supplemental cash flow information:						
Cash paid for interest	\$ <u>378,920</u>	\$ <u>190,506</u>	\$ <u>188,010</u>	\$ <u>658,403</u>	\$ <u>-</u>	\$ <u>1,415,839</u>
Property and equipment in accounts payable/acrued expenses	\$ <u>-</u>	\$ <u>-</u>	\$ <u>440,922</u>	\$ <u>1,192,601</u>	\$ <u>-</u>	\$ <u>1,633,523</u>
Property and equipment transferred from PPL Properties to LP	\$ <u>-</u>	\$ <u>-</u>	\$ <u>(861,041)</u>	\$ <u>861,041</u>	\$ <u>-</u>	\$ <u>-</u>
Mortgages transferred from PPL Properties to LP	\$ <u>-</u>	\$ <u>-</u>	\$ <u>6,683,085</u>	\$ <u>(6,683,085)</u>	\$ <u>-</u>	\$ <u>-</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, 2018**

**PROJECT FOR PRIDE IN LIVING, INC.**

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

For the Year Ended December 31, 2018

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**PROJECT FOR PRIDE IN LIVING, INC.**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

For the Year Ended December 31, 2018

Federal Grantor/ Program or Cluster Title / Pass-through Grantor	CFDA Number	Pass Through Number	Federal Expenditures
<b>Department of Agriculture, Food and Nutrition Service:</b>			
Child Nutrition Cluster:			
National School Lunch Program	10.555		
Passed through State of Minnesota			\$ 18,272
SNAP Cluster:			
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561		
Passed through Minnesota Department of Human Services		115755	234,225
Total Department of Agriculture			<u>252,497</u>
<b>Department of Housing and Urban Development, Office of Community Planning and Development:</b>			
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	170,598
Hawthorne Project Loan		C-24464	79,241
Fremont Flats Project Loan		AA830017	59,781
Fremont Flats Project Loan		AA870033	1,261,935
Franklin Theater Project Loan			500,000
			<u>4,523,492</u>
Community Development Block Grants/State's Program	14.228		
Passed through Minnesota Department of Human Services			
Delancey/Selby Rental Assistance/Operating Subsidy Grant			115,000
Supportive Housing Program	14.235		
Direct:			
Cabrini/New Foundations Program Grant			513,820
Youth Development/Self-Sufficiency Program Grants			250,534
PMD Program Grants			301,853
			<u>1,066,207</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, 2018

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
<b>Department of Housing and Urban Development, Office of Public and Indian Housing:</b>			
Section 8 Project-Based Cluster:			
Lower Income Housing Assistance Program – Section 8 Moderate Rehabilitation	14.856		
Passed through Minnesota Housing Financing Agency		MN46A003001	<u>262,400</u>
Total for Housing and Urban Development (All Offices)			<u>8,167,099</u>
<b>Department of Labor, Employment and Training Administration:</b>			
Workforce Investment Act (WIA) Adult Program	17.258		
Passed through City of Minneapolis		C-40413	<u>350,074</u>
Reintegration of Ex-Offenders	17.270		
Passed through Local Initiatives Support Corporation		40589-0112	<u>95,994</u>
Total for Department of Labor			<u>446,068</u>
<b>Corporation for National and Community Service:</b>			
Social Innovation Fund Grant	94.019		
Passed through Local Initiatives Support Corporation		40589-0098	13,998
Passed through Local Initiatives Support Corporation		40589-0101	1,612
Passed through Local Initiatives Support Corporation		40589-0107	5,689
Passed through Local Initiatives Support Corporation		40589-0109	90,190
Passed through Local Initiatives Support Corporation		40589-0114	39,019
Passed through Annie E Casey Foundation and Local Initiatives Support Corporation		216.7507	<u>202,599</u>
Total for Corporation for National and Community Service			<u>353,107</u>
Total Expenditures of Federal Awards			<u><u>\$ 9,218,771</u></u>

See accompanying notes to schedule

## PROJECT FOR PRIDE IN LIVING, INC.

### NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended December 31, 2018

#### **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, 2018. 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, 2018. 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. During 2018, PPL obtained an indirect cost rate for use with future awards.

#### **Note 4: Loans**

Federal expenditures for the Community Development Block Grants/Entitlement Grants and HOME Investment Partnerships programs include \$6,723,492 of loans outstanding from previous years for which the grantor imposes continuing compliance requirements. The loan balances are as of December 31, 2017, plus a new loan advanced during 2018. At December 31, 2018 and 2017, the loans funded by Community Development Block Grants/Entitlement Grants had a balance of \$4,501,891 and \$4,023,492, and the loans funded by the HOME Investment Partnerships program with a cumulative balance of \$2,200,000 did not change.

**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, 2018, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to consolidated financial statements, and have issued our report thereon dated July 3, 2019. 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.

July 3, 2019

**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, 2018. 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, 2018. 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, 2018.

### **Other Matters**

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance, and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2018-001. Our opinion on each major federal program is not modified with respect to these matters.

Project for Pride in Living, Inc.'s response to the noncompliance findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. Project for Pride in Living, Inc.'s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### **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.

(Continued)

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.

**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, 2018, and have issued our report thereon dated July 3, 2019, 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.

July 3, 2019

PROJECT FOR PRIDE IN LIVING, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended December 31, 2018

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 14.239 – Home Investment Partnerships Program
- SNAP Cluster

Dollar threshold used to distinguish between type A and type B programs \$750,000

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, 2018

**SECTION II – FINDINGS – FINANCIAL STATEMENTS AUDIT**

No matters were reported

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

**2018-001 Lack of a Written Procurement Policy**

Federal Program - All programs  
CFDA # - All programs  
Noncompliance  
Category of Finding – Other

Condition – PPL is required to have written procurement processes which provide for open and free competition, which typically translates to open bidding on larger contracts. PPL has a written procurement policy, however, it is not in compliance with the Uniform Guidance.

Criteria – Per Uniform Guidance “recipients shall maintain written standards of conduct governing the performance of its employees engaged in the award and administration of contract.” The Circular also states that “all procurement transactions shall be conducted in a manner to provide, to the maximum extent practical, open and free competition” and “that all recipients shall establish written procurement procedures.”

Context – PPL has begun the process of establishing a written procurement policy in accordance with the Uniform Guidance. This policy was in the draft stage at year-end.

Cause – PPL has not adopted a formal written procurement policy in compliance with the Uniform Guidance.

Effect – Ineligible costs may be approved through the process and subsequently disallowed.

Identification of repeat findings – No.

Recommendation – We recommend that PPL adopt and enforce a written procurement policy that is in conformity with the Uniform Guidance.

Auditee's comments – Management will adopt a formal written procurement policy.

**SECTION IV – PRIOR AUDIT FINDINGS AND QUESTIONED COSTS**

None



July 3, 2019

## CORRECTIVE ACTION PLAN

The United States Department of Housing and Urban Development

Project for Pride in Living, Inc. respectfully submits the following corrective action plan for the year ended December 31, 2018.

Audit period: January 1, 2018 – December 31, 2018

The findings from the December 31, 2018, schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

### **Findings – Required to be Reported**

2018-001 – Lack of written procurement policy which complies with the Uniform Guidance

Recommendation – We recommend that PPL adopt and enforce a written procurement policy as required by the Uniform Guidance.

Auditee's comments – PPL currently operates with a written procurement policy. An updated version of a written procurement policy in conformity with the Uniform Guidance was in draft form as of December 31, 2018. PPL will adopt a written procurement policy in 2019.

Name(s) and contact person(s) responsible for corrective action: Dan Bain.

Planned completion date for corrective action plan: 2019.

If the Department of Housing and Urban Development has questions regarding this plan, please contact Dan Bain at (612) 455-5177.