

ROSE COMMUNITY
DEVELOPMENT CORPORATION
CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016



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Independent Auditor's Report

To the Board of Directors
ROSE Community Development Corporation
Portland, Oregon

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of ROSE Community Development Corporation, which comprise the consolidated statement of financial position as of June 30, 2016, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of ROSE Community Development Corporation as of June 30, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited ROSE Community Development Corporation's 2015 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated November 6, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Richard Winkel, CPA

October 7, 2015

ROSE Community Development Corporation
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

June 30, 2016

(WITH COMPARATIVE TOTALS FOR 2015)

ASSETS

	2016	2015
Current Assets		
Cash in Banks	\$ 1,045,667	\$ 1,029,334
Cash Held by Property Managers	304,563	230,869
Grants & Contracts Receivable	969,025	102,835
Other Receivables	6,687	10,855
Rental Deposits Held	128,596	125,145
Replacement Reserves & Escrow Accounts	1,320,137	1,204,095
Prepaid Expenses & Deposits	61,684	60,567
Total Current Assets	3,836,359	2,763,700
Other Assets		
Notes & Loans Receivable	1,013,273	969,645
Investments in Partnerships	1,379,208	1,268,848
Office Building, Furniture & Equipment-Net	189,448	196,595
Total Other Assets	2,581,929	2,435,088
Assets Used in Operations		
Predevelopment Assets	340,239	3,350
Rental Properties-Net	18,133,505	18,698,687
Total Assets Used in Operations	18,473,744	18,702,037
Total Assets	\$24,892,032	\$23,900,825
LIABILITIES & NET ASSETS		
Current Liabilities		
Current Portion - Long Term Liabilities	\$ 405,158	\$ 203,368
Accounts Payable	163,685	67,627
Accrued Interest Payable	19,386	19,715
Payroll Liabilities and Vacation Accruals	27,907	11,081
Rental Deposits Held	117,429	117,931
Total Current Liabilities	733,565	419,722
Long Term Liabilities- Less Current Portion	19,939,697	19,956,631
Total Liabilities	20,673,262	20,376,353
Net Assets		
Unrestricted:		
Designated by the Board of Directors	400,000	400,000
Undesignated	2,693,722	3,007,229
Total Unrestricted Net Assets	3,093,722	3,407,229
Temporarily Restricted - Net Assets	1,125,048	117,243
Total Net Assets	4,218,770	3,524,472
Total Liabilities & Net Assets	\$24,892,032	\$23,900,825

See accompanying notes to consolidated financial statements and independent auditor's report

ROSE Community Development Corporation
CONSOLIDATED STATEMENT OF ACTIVITIES
For The Fiscal Year Ended June 30, 2016

(WITH COMPARATIVE TOTALS FOR 2015)

Support & Revenues	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2016 Total</u>	<u>2015 Total</u>
Support				
Grants	\$ 26,299	\$ 1,255,406	\$ 1,281,705	\$ 179,119
Fundraising events, net of \$7,022 in expenses	23,806	-	23,806	25,401
Contributions	11,429	-	11,429	7,664
Total Support	<u>61,534</u>	<u>1,255,406</u>	<u>1,316,940</u>	<u>212,184</u>
Revenues				
Rental Income	2,024,120	-	2,024,120	1,958,215
Interest Income	19,912	-	19,912	20,236
Contract Revenues	44,653	-	44,653	53,303
Sales of homes	-	-	-	369,389
Equity in Earnings (Losses) from Partnerships	(31)	-	(31)	(31)
Other Income	74,039	-	74,039	62,321
Total Revenues	<u>2,162,693</u>	<u>-</u>	<u>2,162,693</u>	<u>2,463,433</u>
Assets Released from Restrictions				
Satisfaction of Program Restrictions	247,601	(247,601)	-	-
Total Support & Revenues	<u>2,471,828</u>	<u>1,007,805</u>	<u>3,479,633</u>	<u>2,675,617</u>
Expenses				
Program Services				
Community Development	201,814	-	201,814	97,138
Rental Development	76,553	-	76,553	97,423
For Sale Development	-	-	-	118,239
Rental Operations	2,257,130	-	2,257,130	2,179,322
Resident Services	142,369	-	142,369	158,297
Total Program Services	<u>2,677,866</u>	<u>-</u>	<u>2,677,866</u>	<u>2,650,419</u>
Support Services				
Management and General	77,498	-	77,498	89,365
Fundraising	29,971	-	29,971	52,451
Total Support Services	<u>107,469</u>	<u>-</u>	<u>107,469</u>	<u>141,816</u>
Total Expenses	<u>2,785,335</u>	<u>-</u>	<u>2,785,335</u>	<u>2,792,235</u>
Change in Net Assets	<u>(313,507)</u>	<u>1,007,805</u>	<u>694,298</u>	<u>(116,618)</u>
Beginning Net Assets	3,407,229	117,243	3,524,472	3,641,090
Net Assets at End of Year	<u>\$ 3,093,722</u>	<u>\$ 1,125,048</u>	<u>\$ 4,218,770</u>	<u>\$ 3,524,472</u>

See accompanying notes to consolidated financial statements and independent auditor's report

ROSE Community Development Corporation
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
For The Fiscal Year Ended June 30, 2016

(WITH COMPARATIVE TOTALS FOR 2015)

Expenses						SUPPORT SERVICES		Total	Total
	Community Development	Rental Development	For Sale Development	Rental Operations	Resident Services	Management and General	Fundraising	2016	2015
Salaries & Related	\$ 149,376	\$ 51,508	\$ -	\$ 136,270	\$ 92,736	\$ 27,899	\$ 24,809	\$ 482,598	\$ 460,597
Professional Services	15,098	3,624	-	269	9,872	41,605	-	70,468	104,340
Program Supplies	10,644	-	-	-	16,341	-	25	27,010	15,351
Occupancy & Telephone	6,925	2,341	-	6,110	7,008	1,199	1,235	24,818	27,116
Postage & Printing	2,481	365	-	934	1,102	710	1,133	6,725	5,053
Insurance	1,126	624	-	983	700	201	184	3,818	4,311
Supplies	4,261	1,364	-	3,723	2,871	745	1,306	14,270	18,353
Professional Dues & Newsletter	1,954	928	-	2,346	1,185	1,334	468	8,215	8,333
Training	709	74	-	-	822	677	38	2,320	2,991
Depreciation Expense	3,386	1,154	-	605,832	2,117	606	558	613,653	617,709
Property Management	-	-	-	454,305	-	-	-	454,305	359,999
Maintenance and Repair	-	-	-	378,913	-	-	-	378,913	386,382
Property Insurance	-	-	-	34,037	-	-	-	34,037	32,574
Utilities	-	-	-	287,323	-	-	-	287,323	276,762
Interest	-	-	-	328,543	-	-	-	328,543	327,009
Bad Debt	-	-	-	16,081	-	-	-	16,081	12,874
Cost of Homes Sold	-	-	-	-	-	-	-	-	100,022
Other Expenses	5,854	14,571	-	1,461	7,615	2,522	215	32,238	32,459
Total Expenses	\$ 201,814	\$ 76,553	\$ -	\$ 2,257,130	\$ 142,369	\$ 77,498	\$ 29,971	\$ 2,785,335	\$ 2,792,235

See accompanying notes to consolidated financial statements and independent auditor's report

ROSE Community Development Corporation
CONSOLIDATED STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2016

(WITH COMPARATIVE TOTALS FOR 2015)

	<u>2016</u>	<u>2015</u>
Cash Flows from Operating Activities		
Cash Received from Tenants	\$ 2,020,167	\$ 1,953,230
Cash Received from Contractor Revenues and Contributors	480,569	183,492
Cash Received for Interest	1,912	2,236
Cash Received from Other Sources	67,413	55,761
Cash Paid to Employees and Suppliers	(1,805,066)	(1,905,693)
Cash Paid for Interest	(328,872)	(327,772)
Net Cash Flows provided by (used in) Operating Activities	436,123	(38,746)
Cash Flows from Investing Activities		
Purchase of Office Building, Furniture and Equipment	(3,884)	-
Capital Expenditures	(374,329)	(44,688)
Net payments to Replacement Reserves	(116,042)	(35,258)
Investment in partnership	(110,391)	-
Proceeds from sale of homes	-	403,746
Net Cash Flows (used in) provided by Investing Activities	(604,646)	323,800
Cash Flows from Financing Activities		
Payments of Debt Principal	(204,731)	(233,332)
Proceeds from Loans	389,587	-
Net Cash Flows provided by (used in) Financing Activities	184,856	(233,332)
Net Increase in Cash in Banks	16,333	51,722
Cash at Beginning of Year	1,029,334	977,612
Cash at End of Year	\$ 1,045,667	\$ 1,029,334
Supplemental schedule of non-cash operating, investing and financing activities:		
Proceeds from sales of homes used for principal payments on loans	\$ -	\$ 109,922

See accompanying notes to consolidated financial statements and independent auditor's report

ROSE Community Development Corporation
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

1. Organization

ROSE Community Development Corporation (ROSE) is a private, nonprofit organization founded in 1991 to improve the housing, physical environment, and social and economic conditions of neighborhoods located within outer southeast Portland, Oregon, and to develop other programs that benefit low- and moderate-income residents of the region. ROSE is funded mainly by rental income and grants.

2. Summary of Significant Accounting Policies

The significant accounting policies followed by ROSE are described below to enhance the usefulness of the financial statements to the reader.

Basis of Accounting – The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Principles of Consolidation – The accompanying financial statements include the accounts of ROSE Housing, Inc.

ROSE Housing Inc. is a nonprofit organization which acquired the Marla Manor Apartments and related net assets on June 12, 1996. ROSE CDC controls ROSE Housing, Inc. All significant inter-company investments, accounts and transactions have been eliminated in the consolidated financial statements.

Basis of Presentation – ROSE prepares its financial statements on the accrual basis of accounting and in accordance with Accounting Standards Codification (ASC) of the Financial Accounting Standards Board 958. ASC 958 is the standard for external financial reporting for not-for-profit organizations. Under these provisions, net assets and all balances and transactions are presented based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of ROSE and changes therein are classified and reported as follows:

- *Unrestricted net assets* - Net assets not subject to donor-imposed stipulations.
- *Temporarily restricted net assets* – Assets subject to donor-imposed stipulations that will be met either by actions of ROSE and/or the passage of time. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

ROSE Community Development Corporation
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

Support and revenue are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Temporary restrictions expire when the donor-stipulated purpose has been fulfilled and/or the donor-stipulated time period has elapsed. Expirations of temporary restrictions result in the reclassification of temporarily restricted net assets to unrestricted net assets and are reported in the statement of activities as net assets released from restriction.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities, the 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.

Contributions – Contributions, which include unconditional promises to give (pledges), are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value.

Contributions of Long-Lived Assets – Contributions of land, buildings and equipment without donor stipulations concerning the use of such long-lived assets are reported as revenues of the unrestricted net asset class. Contributions of cash or other assets to be used to acquire land, buildings and equipment, or to rehabilitate existing properties, with specific donor-imposed stipulations concerning the use of such long-lived assets are reported as revenues of the temporarily restricted net asset class and are considered to be released when the funds are expended for the purposes given.

Cash Equivalents – For purposes of the financial statements, ROSE considers all liquid investments having initial maturities of three months or less to be cash equivalents.

Accounts Receivable – Receivables are recognized as services are provided or based on rental contracts. ROSE uses the allowance method to account for uncollectible accounts. ROSE determines its allowance by considering a number of factors, including the length of time accounts receivable are past due, previous loss history and the customer's current ability to pay its obligation to the Organization. Management believes

ROSE Community Development Corporation
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

the amount of any uncollectible accounts included in accounts receivable to be immaterial. Therefore, no provision for uncollectible accounts has been made.

Fixed Assets and Depreciation – Property and equipment over \$3,000 is capitalized and carried at cost, or at estimated market value when acquired by gift. Depreciation is provided on a straight-line basis over the estimated useful lives of the respective assets, which are generally 25 to 40 years for buildings and 3 to 5 years for equipment and furnishings. All expenditures for repair and maintenance that do not appreciably extend the useful life or increase the value of the assets are expensed when incurred.

Capitalized Interest – During the year ended June 30, 2016, total interest incurred was \$328,543, all of which was expensed under rental operations. No interest was capitalized during the year ended June 30, 2016.

Investment in Partnerships – ROSE accounts for its investments in partnerships using the equity method. Accordingly, the accompanying financial statements include ROSE's share of the partnership's net income or loss.

Fundraising Expenses – ROSE follows the guidance in ASC 958-720 in accounting for costs of activities that include fundraising. As a result, if a fundraising activity contains joint costs that might be allocated to programs or other activities, specific criteria regarding the audience and purpose of the activity will be considered before costs will be allocated. If the criteria are not met, all costs are reported as fundraising expenses. During the year ended June 30, 2016 no joint costs were allocated to programs or other activities. Total fundraising expenses for the year totaled \$36,993, including \$7,022 related to fundraising events.

Revenue Recognition – All contributions and grants are considered available for unrestricted use unless specifically restricted by the donor. Contributions received with donor-imposed restrictions that are met in the same year in which the contributions are received are classified as unrestricted contributions. Service revenues are recognized at the time services are provided and the revenues are earned.

Income Taxes – ROSE is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and comparable state law. ROSE is also exempt from county property taxes under ORS 307.130.

ROSE Community Development Corporation
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

Summarized Financial Information for 2015 – 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 accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the organization’s financial statements for the year ended June 30, 2015, from which the summarized information was derived.

Functional Allocation of Expenses – The costs of providing the various programs have been summarized in the Consolidated Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs benefited based on time studies and management’s judgment.

Fair Value of Financial Instruments – Due to the short-term nature of cash equivalents, prepaid expenses and other assets, accounts payable, and accrued liabilities, their fair value approximates carrying value.

Other Significant Accounting Policies – Other significant accounting policies are set forth in the financial statements and in the following notes.

3. Program Services

During the year ended June 30, 2016, ROSE incurred program service expenses in the following major categories:

- *Rental Development* – ROSE designs, finances and manages construction of affordable apartment communities for low-income families, seniors and people with disabilities.
- *Rental Operations* – The organization works with property managers and residents to ensure that ROSE rental properties are maintained properly and perform financially.
- *For-Sale Development* – ROSE develops homes for sale to moderate-income first-time homebuyers. Support is provided to help prospects successfully complete the home buying process.
- *Community Development* – ROSE promotes economic opportunities and community building activities designed to improve outer southeast Portland neighborhoods.

ROSE Community Development Corporation
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

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- *Resident Services* – This program aims to help residents of ROSE rental housing to improve their financial and social assets. Projects included leadership development, resource and referral, asset building and children’s activities.

4. Replacement Reserves, Operating Reserves, and Escrow Accounts

ROSE maintains several separate accounts that are either required by various lenders or have been established by ROSE to meet future capital and insurance expense needs for rental properties that are in operation. At June 30, 2016 these accounts totaled \$1,320,137. Most of these funds require approval from a third party before the funds can be utilized.

5. Investments in Partnerships

ROSE serves as the general partner for two IRS Code Section 42 Tax Credit Projects through two single-member LLC’s created for that purpose. ROSE uses the equity method of accounting for the investments in the partnerships because, after reviewing the partnership agreements ROSE concluded that they do not exert sufficient control of the partnerships to consolidate the financial statements as per guidance from the Emerging Issues Task Force Issue No. 04-5.

The investments in these partnerships are recorded in ROSE’s books at the following amounts at June 30, 2016:

Lents 2000, LP through ROSE-Lents, LLC	(0.01% interest)	1,245,067
Leander Court, LP through ROSE 122 nd , LLC	(0.01% interest)	134,141
Total		\$ 1,379,208

Lents 2000 Limited Partnership is a tax credit partnership that was created to develop and rent 36 units of affordable housing located on four different sites that the partnership owns. Construction of the housing project was completed in December 2003. During the Limited Partnership’s year ended December 31, 2015, ROSE passed through a grant of \$110,391 to Lents 2000 and recorded an \$11 loss from the partnership.

Leander Court Limited Partnership is a tax credit partnership created to develop and rent a 37-unit affordable housing apartment building. Construction was completed and operations began in the fall of 2007. During the Limited Partnership’s year ended December 31, 2015, ROSE recorded a \$20 loss from the partnership.

ROSE Community Development Corporation
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

The following is summarized financial information for Lents 2000 Limited Partnership and Leander Court Limited Partnership at December 31, 2015. The information was obtained from their latest audited financial statements.

Balance Sheet	12/31/2015 Lents 2000, LP	12/31/2015 Leander Court, LP
Assets		
Cash	\$ 43,503	\$ 3,580
Restricted Deposits & Funded Reserves	109,793	145,162
Fixed Assets - Net of Accumulated Depreciation	3,813,666	5,923,495
Other Assets	45,850	55,533
Total Assets	4,012,812	6,127,770
Liabilities & Partners' Equity		
Accounts Payable	13,504	15,756
Other liabilities	26,592	189,479
Mortgages & Notes Payable	1,066,626	2,922,601
Total Liabilities	1,106,722	3,127,836
Capital:		
General Partner	1,134,676	134,141
Limited Partner	1,771,414	2,865,793
Total Capital	2,906,090	2,999,934
Total Liabilities & Partners' Equity	4,012,812	6,127,770
Statement of Operations		
	12/31/2015	12/31/2015
	Lents 2000, LP	Leander Court, LP
Revenues	293,255	348,317
Expenses	252,480	352,593
Net Profit (Loss) before Depreciation & Amortization	40,775	(4,276)
Loss on investment in real estate	46,466	-
Depreciation & Amortization	106,298	198,847
Net Loss	\$ (111,989)	\$ (203,123)

ROSE Community Development Corporation
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

6. Office Building, Furniture and Equipment

A summary of land, office building, furniture and equipment at June 30, 2016 is as follows:

Land	\$	72,000
Office building		180,008
Office equipment and furnishings		39,630
	\$	291,638
Less accumulated depreciation		(102,190)
	\$	189,448

Total depreciation expense during the year was \$11,031 during the year ended June 30, 2016.

7. Related Party Transactions

There were accounts receivable from Leander Court for fees and the annual tax return for \$1,399 at June 30, 2016. There was also \$1,800 paid to Leander Court for rent expense from ROSE for Baby Booster occupancy costs for the year ending June 30, 2016.

8. Assets Used in Operations

A summary of rental properties used in operations and properties being developed at June 30, 2016, is as follows:

Land	\$	2,919,048
Buildings, furnishings and improvements		20,159,714
Predevelopment Assets		340,239
	\$	23,419,001
Less accumulated depreciation		(4,945,257)
	\$	18,473,744

Total depreciation expense for assets used in operations during the year was \$602,622.

ROSE Community Development Corporation
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

9. Long-Term Liabilities

The acquisition and rehabilitation of ROSE's rental and development properties include costs financed through loans received from the Portland Housing Bureau and through other borrowings from private individuals and organizations. The following obligations were outstanding at June 30, 2016:

Portland Housing Bureau: \$ 615,243

A series of notes at interest rates ranging from 3.00% to 7.00%, with payments of principal and interest due at various dates through 2036, secured by rental properties.

Portland Housing Bureau-Equity Gap Financing: \$ 13,636,107

ROSE has also entered into a series of equity gap financing agreements with the Portland Housing Bureau (PHB). These agreements provided interest-free funds to acquire and rehabilitate various properties. Repayment would only be required if the property were sold or used for another purpose, or if the individual property demonstrated program revenue in excess of 1.15 debt service coverage ratio in any single year of its operation. Then, one half of the excess would be applied to reduce the outstanding equity gap balance.

KeyBank Corporation: \$ 243,522

The Beyer Court Apartments were refinanced in August 2000. The 20-year mortgage has a fixed interest rate of 4.72%, monthly principal and interest payments of \$1,987, and a balloon payment upon maturity. The loan is secured by the apartments.

Network for Oregon Affordable Housing: \$ 835,422

A 20-year note at 2.75% above the 10-year Treasury Constant Maturity Yield, reduced by 4.0% per year if Oregon Affordable Housing Tax Credits are obtained (rate is 2.32% at June 30, 2015) is secured by the Greenview Terrace Apartment building. Monthly payments of \$5,623.42 in principal and interest are due through December 2034.

Chase Bank: \$ 792,465

A 30-year note at 4.91% is secured by the Country Squire Apartment building. Monthly payments of \$6,522 in principal and interest are due through June 30, 2030.

Beneficial Bank: \$ 1,784,967

ROSE Community Development Corporation
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

A 20-year note at 6.50% secured by the Johnson Creek Commons Apartment building. Monthly payments of \$1,820 in principal and interest are due through October 1, 2018, with a final balloon payment of approximately \$63,000 on November 1, 2018.

A 15-year note at 7.30% secured by Jim and Salle's Apartment complex. Monthly payments of \$2,420 in principal and interest are due through November 1, 2023, with a final balloon payment of approximately \$264,988 on December 1, 2023.

A 15-year note at 7% secured by Bellrose Station Apartment complex. Monthly payments of \$7,329 in principal and interest are due through March 1, 2025, with a final balloon payment of approximately \$635,692 on April 1, 2025.

A 10-year note at 6% secured by Firland Apartments. Monthly payments of \$ 3,250 in principal and interest are due through November 1, 2021, with a final balloon payment of approximately \$380,566 on December 1, 2021.

Pacific Continental Bank: \$ 2,437,129
A 15-year note at 4.69% is secured by the Lents Village Apartment building. Monthly payments of \$9,919.52 in principal and interest are due through November 30, 2027, with a final balloon payment of approximately \$1,259,593 on December 31, 2027.

A 15-year note at 5.27% is secured by the Lents Village Apartment building. Monthly payments of \$3,642 in principal and interest are due through August 31, 2029 with a final balloon payment.

A 5-year note at 4.95% is secured by the ROSE office building. Monthly payments of \$1,376 in principal and interest are due through March, 2020.

Total Long Term Debt	\$	20,344,855
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Aggregate maturities of note principal for the five years subsequent to June 30, 2016 and thereafter are as follows:

<i>Years ending June 30,</i>				
	2017	\$	405,159	
	2018		274,404	
	2019		197,706	
	2020		232,929	

ROSE Community Development Corporation
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

	2021	370,973
	Thereafter	18,863,684
		\$ 20,344,855

10. Government Liens and Promissory Notes

At June 30, 2016, ROSE held certain properties donated by Multnomah County, each having been acquired by the County through tax foreclosure.

In the past, a lien has been filed with the property which represents the total canceled property taxes and other costs incurred by the County in obtaining the properties and making them available to ROSE. Following rehabilitation by ROSE, each property is to be occupied for a contractual period by low-income individuals or families as defined in Section 3(b) of the United States Housing Act of 1937. At the end of the contractual period the County will cancel the obligation.

In October 2006 ROSE entered into a \$250,000 promissory note with Bank of America at zero percent interest. The funds represent money that was loaned to Leander Court, LP and becomes due and payable on December 31, 2025. However, should ROSE comply with the terms and conditions of the award of funds contained in the Affordable Housing Program Regulatory Agreement, the full amount hereof shall be forgiven.

11. Other Contingencies and Commitments

ROSE has received various grants and loans for use in housing projects that contain regulatory agreements, or various conditions and obligations to develop and operate housing that is affordable to households earning less than the Median Family Income for the area. These commitments are for varying time periods and extend up to 60 years.

ROSE has complied with all asset restrictions and commitments mentioned above, and has the intention and ability to continue to comply with those restrictions. Accordingly, no liabilities have been recorded at June 30, 2016.

Amounts received or receivable under ROSE's governmental contracts are subject to audit and adjustment by the contractor and by various agencies of the state and federal governments. Any expenditures or claims disallowed as a result of such audits would become a liability on ROSE's overall financial statements.

ROSE Community Development Corporation
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

12. Financial Instruments with Concentrations of Credit Risk

ROSE has cash deposits at several financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. At June 30, 2016 the Organization's uninsured cash balances were approximately \$1,660,000.

The property manager for Rose Housing, Inc. has funds in four accounts at the same institution. The total of these four accounts do not exceed the FDIC insured limit.

Financial instruments that potentially subject ROSE to concentrations of credit risk consist primarily of accounts receivable. ROSE's receivables are mostly with our partnerships, grantors, and governmental institutions, and are considered to be low in risk.

13. In-Kind Contributions

In-kind contributions of property and other materials are recorded where there is an objective basis upon which to value these contributions and where the contributions are an essential part of the organization's activities. Contributions of services are recognized if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills which are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. During the year ended June 30, 2016, ROSE received no in-kind materials or professional services.

14. Restrictions and Limitations on Net Asset Balances

At June 30, 2016, there was \$1,125,048 of temporarily restricted net assets whose donor restrictions have not yet been met.

During the year ended June 30, 2016, \$247,601 was released as there are no additional restrictions from the donor.

As of June 30, 2016 the Organization's Board of Directors has designated \$400,000 of net assets for future housing development and operating reserves.

ROSE Community Development Corporation
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

15. Notes and Loans Receivable

As part of the Leander Court, LP financing structure, ROSE was given funds from Bank of America and the Portland Housing Bureau with the provision that the funds would be loaned to the partnership as long term financing.

ROSE issued a promissory note to the Leander Court Limited Partnership in the amount of \$250,000 with the Bank of America funds. The note is at zero percent interest and payments are deferred until November 1, 2046 when the entire unpaid principal balance is due and payable to ROSE.

ROSE also issued a promissory note to the partnership in the amount of \$600,000 which was the amount of the PHB grant. The note accrues interest at 3 percent per annum from the date of each advance. At June 30, 2016, the total accrued interest for the note is \$190,500 accrued interest and principal are payable to ROSE annually based upon the cash flow priorities stated in the partnership agreement, but the entire unpaid balance of principal is expected to be due and payable no later than December 31, 2037.

Both Long-term note receivables have allowance accounts for doubtful collection which are reviewed annually. The long-term note receivables also are discounted to their net present value. The summary consists of the following at June 30, 2016:

Leander Court partnership fees	\$ 155,157
Leander Court promissory note	250,000
<u>Leander Court promissory note & accrued interest</u>	<u>788,947</u>
	1,194,104
<u>Less discount</u>	<u>(180,831)</u>
Net Notes & loans receivable	\$ 1,013,273

ROSE Community Development Corporation
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

16. Line of Credit

ROSE maintains an unsecured bank line of credit for \$ 50,000 at a variable rate of interest up to a maximum of 10.0%. At June 30, 2016, the full balance remained available.

17. Unemployment Coverage

As a 501(c)(3) organization, ROSE CDC has elected not to participate in the State Unemployment Tax system. However, ROSE does participate in the 501(c) Agencies Trust program. Under the trust program, ROSE CDC makes contributions based primarily upon prior years' experience. Unemployment claims are paid to the state by the trust from our reserve account. The reserve account balance at June 30, 2016 was \$15,488. The reserve balance is not recognized as an asset in the accompanying financial statements, since the account is to be used to pay future unemployment claims. ROSE CDC can be required to make additional contributions in case of unusually large claims; however, stop-loss insurance protects the trust and its participating agencies in the event of catastrophic losses.

18. Subsequent Events

ROSE Community Development Corporation did not have any subsequent events through October 7, 2016, which is the date the financial statements were available to be issued, for events requiring recording or disclosure in the financial statements for the year ended June 30, 2016.

ROSE Community Development Corporation
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

19. Reconciliation of Statement of Cash Flows and Non Cash Transactions

Change in net assets	\$	694,298
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Adjustments to reconcile the change in net assets
to net cash from operating activities:

Depreciation		613,653
Loss on investment of limited partnerships		31
Accrued Income		(43,628)

Net changes in:

Cash held by property managers		(73,694)
Grants and contracts receivable		(866,190)
Other receivables		9,726
Rental deposits held		(3,451)
Prepaid expenses		(1,117)
Accounts payable		90,500
Accrued interest payable		(329)
Payroll liabilities		16,826
Rental deposits held payable		(502)

Total adjustments		(258,175)
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Net Cash Flows from Operating Activities	\$	436,123
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Total cash paid for interest	\$	328,872
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