

Laconia Area Community Land Trust, Inc.

Financial Report and
Supplementary Information

December 31, 2016 and 2015

Nesseralla & Company, LLC
A Public Accounting Firm

LACONIA AREA COMMUNITY LAND TRUST, INC.

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DECEMBER 31, 2016 AND 2015

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Laconia Area Community Land Trust, Inc.
Laconia, New Hampshire

Report on the Financial Statements

We have audited the accompanying statement of financial position of Laconia Area Community Land Trust, Inc. (a non-profit corporation), as of December 31, 2016, and the related statements of activities, functional expenses and cash flows for the year then ended.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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.

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 financial position of Laconia Area Community Land Trust, Inc. as of December 31, 2016, and the changes in its net assets, functional expenses and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter – Change in Accounting Principle

As discussed in Note 2 to the financial statements, Laconia Area Community Land Trust, Inc. has adopted ASU No. 2015-03, *Simplifying the Presentation of Debt Issuance Costs*. Our opinion is not modified with respect to that matter.

Other Matters*Report on Summarized Comparative Information*

We have previously audited Laconia Area Community Land Trust, Inc.'s December 31, 2015 financial statements, and expressed an unmodified opinion on those financial statements in our report dated March 28, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Report on Additional Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the 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 information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated March 23, 2017 on our consideration of Laconia Area Community Land Trust, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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 Laconia Area Community Land Trust, Inc.'s internal control over financial reporting and compliance.

Nesseralla & Company, LLC

Manchester, New Hampshire

March 23, 2017

LACONIA AREA COMMUNITY LAND TRUST, INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2016
(with comparative totals for the year ended December 31, 2015)

<u>ASSETS</u>	2016	2015
Current Assets		
Cash (Note 1)	\$ 1,986,799	\$ 1,888,522
Tenant rents receivable (Note 1)	70,056	4,280
Grants and contributions receivable	83,483	446,106
Other receivables	-	5,109
Prepaid expenses	53,628	38,951
Total Current Assets	<u>2,193,966</u>	<u>2,382,968</u>
Restricted Cash		
Cash - permanently restricted (Note 5)	33,884	57,595
Restricted reserves (Note 12)	712,548	166,093
Tenant security deposits held in trust	78,305	35,201
Total Restricted Cash	<u>824,737</u>	<u>258,889</u>
Property and equipment, at cost - net of accumulated depreciation (Note 2)	<u>8,282,370</u>	<u>4,450,369</u>
Noncurrent Assets		
Project under development (Note 3)	125,157	5,000
Development fees receivable (Note 6)	444,890	218,586
Notes and operating advances receivable - related parties (Note 6)	954,200	839,184
Investments in partnerships (Note 6)	100	196,855
Total Noncurrent Assets	<u>1,524,347</u>	<u>1,259,625</u>
Total Assets	<u>\$ 12,825,420</u>	<u>\$ 8,351,851</u>

See accompanying notes

LACONIA AREA COMMUNITY LAND TRUST, INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2016
(with comparative totals for the year ended December 31, 2015)

<u>LIABILITIES AND NET ASSETS</u>	2016	2015
Current Liabilities		
Current portion of long-term debt (Note 7)	\$ 284,372	\$ 210,275
Accounts payable	66,128	18,536
Prepaid rent	5,465	6,083
Accrued wages and other expenses	132,025	87,300
Total Current Liabilities	<u>487,990</u>	<u>322,194</u>
Long-term Liabilities		
Long-term debt, net of current portion and debt issuance costs (Notes 7 & 16)	6,311,982	1,991,447
Equity equivalent investment (Note 15)	110,000	110,000
Tenant security deposits payable	78,131	34,859
Total Long Term Liabilities	<u>6,500,113</u>	<u>2,136,306</u>
 Total Liabilities	 <u>6,988,103</u>	 <u>2,458,500</u>
Net Assets		
Unrestricted	3,988,302	3,674,918
Temporarily restricted (Note 4)	242,370	656,788
Permanently restricted (Note 5)	1,606,645	1,561,645
Total Net Assets	<u>5,837,317</u>	<u>5,893,351</u>
 Total Liabilities and Net Assets	 <u>\$ 12,825,420</u>	 <u>\$ 8,351,851</u>

See accompanying notes

LACONIA AREA COMMUNITY LAND TRUST, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2016
(with comparative totals for the year ended December 31, 2015)

	Other Operating Programs	Property Development	Total Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	2016 Total	2015 Total
Revenue and Other Support							
Membership dues	\$ 22,371	\$ -	\$ 22,371	\$ -	\$ -	\$ 22,371	\$ 18,051
Contributions	22,894	-	22,894	-	-	22,894	10,882
In-kind donations (Note 9)	3,600	-	3,600	-	-	3,600	-
Grants (Note 10)	111,900	-	111,900	200,146	45,000	357,046	621,252
Resident service fees (Note 6)	18,946	-	18,946	-	-	18,946	19,656
Rental income and land lease revenue	736,188	-	736,188	-	-	736,188	547,687
Developer fees (Note 6)	-	306,600	306,600	-	-	306,600	277,400
Management incentive fees (Note 6)	-	20,429	20,429	-	-	20,429	8,079
Net assets released from restrictions:	614,564	-	614,564	(614,564)	-	-	-
Total Revenue and Support	1,530,463	327,029	1,857,492	(414,418)	45,000	1,488,074	1,503,007
Functional Expenses (Note 11)							
Program Services:							
Transitional Services	47,660	-	47,660	-	-	47,660	46,502
Tenant Support	55,296	-	55,296	-	-	55,296	37,785
Affordable Housing Production	-	265,465	265,465	-	-	265,465	251,400
Rental Properties	705,445	-	705,445	-	-	705,445	598,315
Asset Management	63,168	-	63,168	-	-	63,168	128,910
Homeownership Center	4,908	-	4,908	-	-	4,908	17,588
Supporting Services:							
Fundraising	86,941	-	86,941	-	-	86,941	82,065
General and Administrative	170,167	-	170,167	-	-	170,167	76,252
Total Functional Expenses	1,133,584	265,465	1,399,049	-	-	1,399,049	1,238,817
Change in Net Assets Before Non-operating Income and Expenses	396,879	61,564	458,443	(414,418)	45,000	89,025	264,190
Non-operating Income (Expenses)							
Investment income	29,558	-	29,558	-	-	29,558	21,484
Loss on disposition of a partnership interest (Note 18)	(196,755)	-	(196,755)	-	-	(196,755)	-
Recovery (discount) on notes receivable (Note 6)	22,138	-	22,138	-	-	22,138	(287,567)
Total Non-operating Income (Expenses)	(145,059)	-	(145,059)	-	-	(145,059)	(266,083)
Change in Net Assets	251,820	61,564	313,384	(414,418)	45,000	(56,034)	(1,893)
Net Assets, beginning of year	3,648,203	-	3,674,918	656,788	1,561,645	5,893,351	5,895,244
Transfers	61,564	(61,564)	-	-	-	-	-
Net Assets, end of year	\$ 3,961,587	\$ -	\$ 3,988,302	\$ 242,370	\$ 1,606,645	\$ 5,837,317	\$ 5,893,351

See accompanying notes

LACONIA AREA COMMUNITY LAND TRUST, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2016
(with comparative totals for the year ended December 31, 2015)

	Program Services							Fundraising	General and Administrative	2016	2015
	Transitional Services	Tenant Support	Affordable Housing Production	Rental Properties	Home-Ownership Center	Asset Management	Total Program Services			Total Functional Expenses	Total Functional Expenses
Salaries and wages	\$ 34,802	\$ 38,455	\$ 201,410	\$ -	\$ 3,896	\$ 49,011	\$ 327,574	\$ 64,858	\$ 129,382	\$ 521,814	\$ 473,191
Payroll taxes and benefits	5,505	6,083	31,858	-	616	7,752	51,814	10,259	20,465	82,538	84,704
Training and education	430	708	2,215	-	23	374	3,750	624	1,187	5,561	3,277
Insurance	282	348	951	39,036	15	245	40,878	409	779	42,066	30,557
Advertising	-	-	-	875	-	-	875	1,150	-	2,025	2,093
Professional fees	2,018	2,495	6,812	8,607	108	1,757	21,797	2,929	5,575	30,301	31,863
Management fees	-	-	-	68,975	-	-	68,975	-	-	68,975	50,640
Depreciation (Note 2)	885	1,094	2,988	124,433	48	771	130,218	1,285	2,445	133,948	113,502
Bad debt expense	-	-	-	8,172	-	-	8,172	-	-	8,172	10,988
Interest expense	307	380	1,036	41,134	17	267	43,140	446	848	44,434	26,870
Interest - amortization of debt issuance costs	-	-	-	3,483	-	-	3,483	-	-	3,483	1,076
Repairs and maintenance	345	426	1,164	187,760	19	300	190,013	500	952	191,466	189,615
Utilities	349	431	1,178	43,876	19	304	46,157	506	964	47,627	46,476
Snow and trash removal	153	190	518	29,328	8	134	30,331	223	424	30,978	24,835
Property taxes	488	603	1,646	91,912	26	425	95,099	708	1,347	97,154	82,356
Water and sewer	52	64	174	54,897	3	45	55,234	75	142	55,451	39,005
Miscellaneous	934	1,435	3,153	2,957	50	813	9,342	1,355	2,580	13,277	7,031
Postage	149	184	501	-	8	129	971	216	410	1,597	1,679
Dues and subscriptions	40	49	134	-	2	35	259	58	109	426	276
Supplies	482	596	1,628	-	26	420	3,153	700	1,333	5,186	6,788
Telephone	394	488	1,332	-	21	344	2,579	573	1,090	4,241	3,840
Discount on note payable (Note 7)	-	-	6,267	-	-	-	6,267	-	-	6,267	6,027
Travel	48	1,268	500	-	3	42	1,861	69	132	2,062	2,128
Total Functional Expenses	\$ 47,660	\$ 55,296	\$ 265,465	\$ 705,445	\$ 4,908	\$ 63,168	\$ 1,141,941	\$ 86,941	\$ 170,167	\$ 1,399,049	\$ 1,238,817

See accompanying notes

LACONIA AREA COMMUNITY LAND TRUST, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2016
(with comparative totals for the year ended December 31, 2015)

	2016	2015
Cash Flows From Operating Activities		
Change in net assets	\$ (56,034)	\$ (1,893)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	133,948	113,502
Amortization of debt issuance costs	3,483	1,076
Discount on note payable	6,267	6,027
Discount on note receivable	(22,138)	287,567
Loss on disposition of a partnership interest	196,755	-
(Increase) decrease in the following assets:		
Tenant rents receivable	(65,776)	63
Grants and contributions receivable	362,623	(132,843)
Other receivables	5,109	(5,109)
Prepaid expenses	(14,677)	(4,379)
Tenant security deposits	(43,104)	(1,409)
Increase (decrease) in the following liabilities:		
Accounts payable and accrued expenses	92,317	(75,632)
Prepaid rents	(618)	(2,203)
Tenant security deposits	43,272	1,198
Net Cash Provided By Operating Activities	<u>641,427</u>	<u>185,965</u>
Cash Flows From Investing Activities		
Transfers to/from escrows and reserves, net	(546,455)	(10,941)
Projects under development	(120,157)	(5,000)
Purchase of property, equipment and other assets	(3,965,949)	(235,894)
Net Cash Used In Investing Activities	<u>(4,632,561)</u>	<u>(251,835)</u>
Cash Flows From Financing Activities		
Development fees receivable	(226,304)	152,326
Notes receivable from related parties	(92,878)	481,446
Proceeds from (repayment of) mortgages and notes	4,384,882	(143,394)
Net Cash Provided By Financing Activities	<u>4,065,700</u>	<u>490,378</u>
Net Increase In Cash	74,566	424,508
Cash, beginning of year	<u>1,946,117</u>	<u>1,521,609</u>
Cash, end of year	<u>\$ 2,020,683</u>	<u>\$ 1,946,117</u>
Cash Paid During The Year For:		
Interest	<u>\$ 26,316</u>	<u>\$ 26,977</u>

See accompanying notes

LACONIA AREA COMMUNITY LAND TRUST, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

1. Summary of Significant Accounting Policies

Program Mission

Laconia Area Community Land Trust, Inc.'s ("LACLТ") mission is to assist low- and moderate-income families in achieving economic self-sufficiency through the development of permanently affordable housing opportunities and associated support programs.

Program Services

LACLТ develops and supports its operations through strategic management of critical functions. Through staff effort and board oversight, the functions of accounting, fundraising, accountability to and support from the community and funding sources, and organization management and development are maintained to ensure the organization's integrity and sustainability. LACLТ serves the community through six programs as follows:

Transitional Services

LACLТ's transitional service program serves families, primarily women and children, who are homeless or at imminent risk of homelessness. Families receive affordable rent and develop aggressive family self-sufficiency plans to recover from homelessness and become economically self-sufficient.

Tenant Support

LACLТ residents who desire support services are provided with a full range of support and life skills training. A resident services coordinator assists families to retain their housing, strengthen family stability and enhance economic self-sufficiency.

Affordable Housing Production

LACLТ develops affordable housing with new construction, gut rehabilitation, historic preservation, urban infill, brownfield, and adaptive reuse production, and preserves it as permanently affordable through the unique mechanisms of the community land trust model.

Rental Properties and Asset Management

LACLТ retained the services of a third party management agent for its portfolio of properties effective April 1, 2006. LACLТ provides asset management services related to these properties.

Homeownership Center

LACLТ provides homebuyer and financial literacy training through its HOMEteam collaborative. Participants receive education and support which assists them in becoming successful homeowners. The initiative is also intended to encompass the development of homeownership opportunities for low- and moderate-income families.

Basis of Presentation

Financial statement presentation follows recommendations of the Financial Accounting Standards Board in its Accounting Standards Codifications (ASC) 958-205, *Financial Statements of Not-for-Profit Organizations*. Under ASC 958-205, LACLТ is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

LACONIA AREA COMMUNITY LAND TRUST, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

1. Summary of Significant Accounting Policies (continued)

Organizational Structure

LACLT is incorporated under the laws of the State of New Hampshire as a non-profit corporation. LACLT is exempt from federal income taxes under Internal Revenue Code section 501(c)(3).

LACLT Corporation is incorporated under the laws of the State of New Hampshire as a for-profit corporation. It is a wholly owned subsidiary of LACLT.

EASTLACLT, LLC is formed under the laws of the State of New Hampshire as a for-profit limited liability company. LACLT owns a 51% share of the LLC.

Winni River Housing Corp is incorporated under the laws of the State of New Hampshire as a for-profit corporation. It is a wholly owned subsidiary of LACLT.

Revenue Recognition

The accompanying financial statements were prepared using the accrual basis of accounting, the purpose of which is to record revenues when they are earned or awarded and record expenses when they are incurred.

Cash and Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with a maturity of three months or less. Restricted cash is not considered cash equivalents.

Rents Receivable – Recognition of Bad Debts

LACLT considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts is required. If amounts become uncollectible, they will be charged to operations when that determination is made.

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 disclosures 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.

Uncertainty in Income Taxes

LACLT is not a taxpaying entity for federal or state income tax purposes; accordingly, a provision for income taxes has not been recorded in the accompanying financial statements; no reserves for uncertain income tax positions were recorded; and LACLT did not record a cumulative effect adjustment related to the adoption of ASC 740.

Subsequent Events

Events that occur after the balance sheet date but before the financial statements were available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the balance sheet date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the balance sheet date require disclosure in the accompanying notes. Management evaluated the activity of LACLT through March 23, 2017 and concluded that no subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements.

LACONIA AREA COMMUNITY LAND TRUST, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

1. Summary of Significant Accounting Policies (continued)

Fair Value Measurements

LACLT determines the fair market values of its financial assets and liabilities, as well as non-financial assets and liabilities that are recognized or disclosed at fair value on a recurring basis, based on the fair value hierarchy established in the accordance with generally accepted accounting principles for *Fair Value Measurement ASC 820*.

Level 1: Quoted prices in active markets for identical assets or liabilities. LACLT currently has no Level 1 assets or liabilities that are measured at fair value on a recurring basis.

Level 2: Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. LACLT currently has no Level 2 assets or liabilities that are measured at fair value on a recurring basis.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include items where the determination of fair value requires significant management judgment or estimation. LACLT currently has no Level 3 assets or liabilities that are measured at fair value on a recurring basis.

Change in Accounting Principle

During the year ended December 31, 2016, LACLT adopted the provisions of Accounting Standards Update 2015-03, *Simplifying the Presentation of Debt Issuance Costs* (ASU 2015-03). ASU 2015-03 requires organizations to present debt issuance costs as a direct deduction from the carrying value of the related debt liability and amortization is required to be included with interest expense in the statement of functional expenses. Certain amounts in the December 31, 2015 financial statements have been reclassified to conform to the December 31, 2016 presentation.

Advertising

LACLT expenses advertising costs as they are incurred.

LACONIA AREA COMMUNITY LAND TRUST, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

2. Property and Equipment

Property and equipment are carried at cost. Maintenance repairs and minor renewals are expensed as incurred, while more extensive renewals and betterments are capitalized. Provision for depreciation is provided over the estimated useful lives of the respective assets, on a straight-line basis, over five to thirty-nine years. Depreciation expense for the years ended December 31, 2016 and 2015 was \$133,948 and \$113,502, respectively.

LACLT's property and equipment consisted of the following assets, recorded at cost, at December 31:

	2016	2015
Land	\$2,144,882	\$1,133,430
Building and Improvements	7,110,652	4,156,155
Equipment	83,135	83,135
Total	9,338,669	5,372,720
Less: accumulated depreciation	1,056,299	922,351
Property and Equipment, net	<u>\$8,282,370</u>	<u>\$4,450,369</u>

3. Project Under Development

LACLT capitalizes all costs for projects under development. If a project is determined infeasible, the costs are expensed in the year of determination.

During the years ended December 31, 2016 and 2015, LACLT incurred expenses related to an affordable housing project, Gilford Village Knolls Phase III. The outstanding project under development balance at December 31, 2016 and 2015 was \$125,157 and \$5,000, respectively. LACLT entered into an Option to Purchase the land on May 17, 2016. The Option has not been exercised as of December 31, 2016 and expires on December 31, 2017.

4. Temporarily Restricted Net Assets

Temporarily restricted net assets consisted of assets whose use was restricted to payments for a particular purpose and time period. At December 31, 2016 and 2015, temporarily restricted net assets were \$242,370 and \$656,788, respectively.

5. Permanently Restricted Net Assets

At December 31, 2016 and 2015, permanently restricted net assets consisted of the following:

NeighborWorks America Capital Fund:

	2016	2015
Cash	\$ 33,884	\$ 57,595
Office Building	41,064	41,064
Building Improvements	651,369	590,382
Long-term Loan – Capital Projects	867,328	872,604
WIP – Gilford Village Knolls Phase III	13,000	-
Net Assets	<u>\$ 1,606,645</u>	<u>\$ 1,561,645</u>

LACONIA AREA COMMUNITY LAND TRUST, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

5. Permanently Restricted Net Assets (continued)

The NeighborWorks America Capital Fund represents funds provided by NeighborWorks America for capital projects. All resources granted to this fund must be maintained permanently. LACLT is permitted to transfer or expend the income derived from capital assets in excess of the relevant Capital Fund Agreement.

LACLT received \$45,000 and \$100,000 in grant funds from the NeighborWorks America Capital Reinvestment Fund during the years ended December 31, 2016 and 2015, respectively. LACLT received a release from its Capital Fund Agreement during the years ended December 31, 2016 and 2015 in the amount of \$0 and \$337,223, respectively.

6. Related Party Transactions

Notes Receivable and Operating Advances

LACLT entered into a long-term promissory note agreement with Mechanic School Limited Partnership. Interest accrues annually at the rate of 3.1%. The principal and accrued interest are due in their entirety on March 7, 2036. The note receivable balance outstanding at December 31, 2016 and 2015 was \$30,000 and \$30,000, respectively. The accrued interest receivable balance at December 31, 2016 and 2015 was \$13,472 and \$14,542, respectively.

LACLT advanced funds to MFH Limited Partnership to pay certain invoices of the property. The balance outstanding at December 31, 2016 and 2015 was \$0 and \$3,600, respectively.

LACLT entered into a promissory note agreement with Boynton Road Limited Partnership. Interest accrues at the rate of 3%. The principal and accrued interest are due in their entirety on January 20, 2039. The note receivable balance at December 31, 2016 and 2015 was \$17,000 and \$17,000, respectively. The accrued interest receivable balance at December 31, 2016 and 2015 was \$1,542 and \$2,040, respectively.

LACLT entered into a 1% promissory note agreement with Lochmere Meadows Affordable Housing Limited Partnership during the year ended December 31, 2011. Monthly principal and interest payments of \$563 are due through January 31, 2031. The note receivable balance at December 31, 2016 and 2015 was \$144,952 and \$150,228, respectively.

LACLT entered into a \$324,000 non-interest bearing promissory note agreement with Lochmere Meadows Affordable Housing Limited Partnership during the year ended December 31, 2012. The entire outstanding balance of the note shall be due and payable in full on April 25, 2029. The loan has been discounted to its present value using an implied interest rate of 4%. The discounted note receivable balance at December 31, 2016 and 2015 was \$194,586 and \$187,102, respectively.

LACLT made operating deficit loans to Harriman Hill Affordable Housing Limited Partnership ("HHAHLP") to cover operating deficits. Operating deficit loans accrue interest at 8% compounded annually, and are payable from cash surplus. The balance outstanding was \$20,200 and \$20,200 at December 31, 2016 and 2015, respectively. The balance of deferred interest payable at December 31, 2016 and 2015 was \$3,113 and \$1,497, respectively.

LACLT entered into a \$32,000 non-interest bearing promissory note agreement with HHAHLP during the year ended December 31, 2013. The entire outstanding balance of the note shall be due and payable in full on November 1, 2030. The note receivable balance at December 31, 2016 and 2015 was \$32,000 and \$32,000, respectively.

LACONIA AREA COMMUNITY LAND TRUST, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

6. Related Party Transactions (continued)

Notes Receivable and Operating Advances (continued)

LACLT entered into a \$400,000 non-interest bearing promissory note agreement with Harriman Hill II Limited Partnership during the year ended December 31, 2014. The entire outstanding balance of the note shall be due and payable in full on June 24, 2028. The loan has been discounted to its present value using an implied interest rate of 4%. The discounted note receivable balance at December 31, 2016 and 2015 was \$240,230 and \$230,990, respectively.

LACLT entered into a \$439,000 promissory note agreement with River's Edge Laconia Limited Partnership during the year ended December 31, 2015. The loan accrues interest at 5% per annum with payments due at 50% of annual cash surplus. The entire outstanding balance of the note shall be due and payable in full on May 3, 2045. The loan has been discounted to its present value using an implied interest rate of 4%. The discounted note receivable balance at December 31, 2016 and 2015 was \$140,766 and \$135,352, respectively. The balance of deferred interest payable at December 31, 2016 and 2015 was \$35,181 and \$14,633, respectively.

LACLT advanced funds to River's Edge Laconia Limited Partnership to pay certain invoices of the property. The balance outstanding at December 31, 2016 and 2015 was \$81,158 and \$0, respectively.

Resident Service Fees

LACLT received resident service fees for supportive services it provides to certain partnerships in which it is affiliated as follows:

	2016	2015
LNI, LP	\$ 1,026	\$ 4,104
MFH, LP	4,032	3,888
River's Edge	1,792	-
HHAHLP	5,376	5,184
Harriman Hill II, LP	5,376	5,184
Mechanic School, LP	1,344	1,296
	<u>\$ 18,946</u>	<u>\$ 19,656</u>

Management Incentive Fees

LACLT entered into management incentive fee agreements with certain limited partnerships in which it is a general partner. Management incentive fees earned during the years ended December 31, 2016 and 2015 are as follows:

	2016	2015
LNI, LP	\$ 7,025	\$ 2,979
Boynton Road	4,992	-
Harriman Hill II, LP	3,312	-
Mechanic School, LP	5,100	5,100
	<u>\$ 20,429</u>	<u>\$ 8,079</u>

LACONIA AREA COMMUNITY LAND TRUST, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

6. Related Party Transactions (continued)

Developer Services Fees

LACLT entered into a development services agreement with Eastern Lakes Regional Housing Coalition. The agreement called for payment of a fee in the amount of \$74,667 for the development services on a project located in Wolfeboro, New Hampshire. LACLT earned \$74,667 during the year ended December 31, 2011. LACLT was owed \$28,961 and \$28,961 at December 31, 2016 and 2015, respectively. The amount due accrues interest at 8% compounded annually and is expected to be repaid from the cash flows of the partnership. The balance of deferred interest payable as of December 31, 2016 and 2015 was \$6,929 and \$4,634, respectively.

LACLT entered into a development services agreement with Harriman Hill II Limited Partnership. The agreement calls for payment of a fee in the amount of \$298,667 for the development services on a project located in Wolfeboro, New Hampshire. LACLT was owed \$0 and \$10,591 at December 31, 2016 and 2015, respectively.

LACLT entered into a development services agreement with River's Edge Laconia Limited Partnership. The agreement calls for payment of a fee in the amount of \$584,000 for the development services on a project located in Laconia, New Hampshire. LACLT had earned the entire fee during the year ended December 31, 2016. LACLT was owed \$409,000 and \$174,400 at December 31, 2016 and 2015, respectively.

Investments in Partnerships

LACLT maintains the following investments in partnerships which have been recorded at cost as of December 31, 2016:

<u>Partnership</u>	<u>Ownership %</u>	<u>2016</u>	<u>2016</u>
LNI LP	.01%	\$ 0	\$ 196,755
Harriman Hill AH LP	.009%	100	100
		<u>\$ 100</u>	<u>\$ 196,855</u>

7. Long-term Debt

Long-term debt consisted of the following at December 31, 2016 and 2015:

3% note payable to Bank of New Hampshire due in monthly principal and interest payments of \$1,158 through 2016. The note is collateralized by a mortgage on land and buildings, Winter Street, Laconia, New Hampshire. The original loan amount was \$150,000. The balance outstanding at December 31, 2016 and 2015 was \$0 and \$12,499, respectively.

4% note payable to Bank of New Hampshire due in monthly principal and interest payments of \$512 through January 2022. The note is collateralized by a mortgage on land and building, Elm Street, Laconia, New Hampshire. The original loan amount was \$66,900. The balance outstanding at December 31, 2016 and 2015 was \$25,104 and \$29,460, respectively.

LACONIA AREA COMMUNITY LAND TRUST, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

7. Long-term Debt (continued)

As discussed in Note 1, as a result of the adoption of ASU No. 2015-03, *Simplifying the Presentation of Debt Issuance Costs*, debt issuance costs were reclassified in the balance sheets from other assets to notes payable. As of December 31, 2016 and 2015, the outstanding principal balance of the note payable less unamortized debt issuance costs was \$21,935 and \$25,657, respectively. As of December 31, 2016 and 2015, unamortized debt issuance costs of \$3,169 and \$3,803, respectively, consist of debt issuance costs of \$12,679 less accumulated amortization of \$9,510 and \$8,876, respectively. During the year ended December 31, 2016 and 2015, amortization expense incurred was \$634 and \$634, respectively, and was included in interest expense in the statement of functional expenses.

5% note payable to Bank of New Hampshire assumed by LACLT through the purchase of the Pine Hill project on October 15, 2014. Monthly principal and interest payments of \$1,730 are due through December 2018. The note is collateralized by a mortgage on real estate located in Laconia, New Hampshire. The original loan amount was \$262,000. The balance outstanding at December 31, 2016 and 2015 was \$39,375 and \$57,657, respectively.

As discussed in Note 1, as a result of the adoption of ASU No. 2015-03, *Simplifying the Presentation of Debt Issuance Costs*, debt issuance costs were reclassified in the balance sheets from other assets to notes payable. As of December 31, 2016 and 2015, the outstanding principal balance of the note payable less unamortized debt issuance costs was \$35,823 and \$53,793, respectively. As of December 31, 2016 and 2015, unamortized debt issuance costs of \$3,552 and \$3,864, respectively, consist of debt issuance costs of \$9,350 less accumulated amortization of \$5,798 and \$5,486, respectively. During the year ended December 31, 2016 and 2015, amortization expense incurred was \$312 and \$312, respectively, and was included in interest expense in the statement of functional expenses.

4% note payable to Bank of New Hampshire due in monthly principal and interest payments of \$428 through January 2022. The note is collateralized by a mortgage on land and building, Pearl Street, Laconia, New Hampshire. The original loan amount was \$55,900. The balance outstanding at December 31, 2016 and 2015 was \$20,976 and \$24,615, respectively.

As discussed in Note 1, as a result of the adoption of ASU No. 2015-03, *Simplifying the Presentation of Debt Issuance Costs*, debt issuance costs were reclassified in the balance sheets from other assets to notes payable. As of December 31, 2016 and 2015, the outstanding principal balance of the note payable less unamortized debt issuance costs was \$20,876 and \$24,496, respectively. As of December 31, 2016 and 2015, unamortized debt issuance costs of \$100 and \$119, respectively, consist of debt issuance costs of \$385 less accumulated amortization of \$285 and \$266, respectively. During the year ended December 31, 2016 and 2015, amortization expense incurred was \$19 and \$19, respectively, and was included in interest expense in the statement of functional expenses.

3% note payable to Meredith Village Savings Bank due in monthly principal and interest payments of \$2,781 through December 31, 2039. The loan is being amortized over a thirty year period. The note is collateralized by a mortgage on real estate located in Meredith, New Hampshire and is subject to the terms of an Affordable Housing Program Agreement. The original loan amount was \$659,705. The balance outstanding at December 31, 2016 and 2015 was \$553,965 and \$570,412, respectively.

LACONIA AREA COMMUNITY LAND TRUST, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

7. Long-term Debt (continued)

Non-interest bearing note payable to Meredith Village Savings Bank in the amount of \$400,000, with actual total borrowing of \$401,641. The loan has been discounted using an imputed interest rate of 4.0%, which resulted in a discount of \$238,685 and \$244,952 at December 31, 2016 and 2015, respectively. The note is collateralized by a mortgage on real estate located in Meredith, New Hampshire and is subject to the terms of an Affordable Housing Program Agreement. No principal payments are due until the loan matures in full on January 22, 2024. The balance outstanding at December 31, 2016 and 2015 was \$162,956 and \$156,689, respectively.

Non-interest bearing note payable to New Hampshire Housing Finance Authority ("NHHFA") assumed by LACLT through the purchase of the Pine Hill project on October 15, 2014. The note is collateralized by a mortgage on real estate located in Laconia, New Hampshire. No principal payments are due until the loan matures in full in May 2027. The original loan amount and balance outstanding at December 31, 2016 and 2015 was \$350,000 and \$350,000, respectively.

Non-interest bearing note payable to NHHFA assumed by LACLT through the purchase of AHNLP on June 24, 2013. The note is collateralized by a mortgage on real estate located in Laconia, New Hampshire. No principal payments are due until the loan matures in full in October 2027. The original loan amount and balance outstanding at December 31, 2016 and 2015 was \$585,000 and \$585,000, respectively.

Non-interest bearing note payable to the City of Laconia, New Hampshire assumed by LACLT through the purchase of the Pine Hill project on October 15, 2014. The note is collateralized by a mortgage on real estate located in Laconia, New Hampshire. No principal payments are due until the loan matures in full on June 1, 2018. The original loan amount and balance outstanding at December 31, 2016 and 2015 was \$234,072 and \$234,072, respectively.

Non-interest bearing note payable to the City of Laconia, New Hampshire assumed by LACLT through the purchase of AHNLP on June 24, 2013. The note is collateralized by a mortgage on real estate located in Laconia, New Hampshire. No principal payments are due until the loan matures in full on December 31, 2016. The original loan amount and balance outstanding at December 31, 2016 and 2015 was \$154,938 and \$154,938, respectively.

Non-interest bearing note payable to the Laconia Housing Redevelopment Authority assumed by LACLT through the purchase of AHNLP on June 24, 2013. The loan amount is subject to a lien that does not require repayment unless the real property is conveyed to another party. The original loan amount and balance outstanding at December 31, 2016 and 2015 was \$35,900 and \$35,900, respectively.

6.5% note payable to Northway National Bank assumed by LACLT through the purchase of LNI, LP on April 4, 2016. The interest rate is adjusted every five years and is calculated by adding 2% to the five-year maturity index as published by the Federal Reserve Board, with a floor of 4.5%. Monthly principal and interest payments which reflect any change in the interest rate are due through October 29, 2021. The note is collateralized by a mortgage on real estate located in Laconia, New Hampshire. The original loan amount was \$70,000. The balance outstanding at December 31, 2016 and 2015 was \$24,776 and \$0, respectively.

LACONIA AREA COMMUNITY LAND TRUST, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

7. Long-term Debt (continued)

As discussed in Note 1, as a result of the adoption of ASU No. 2015-03, Simplifying the Presentation of Debt Issuance Costs, debt issuance costs were reclassified in the balance sheets from other assets to notes payable. As of December 31, 2016, the outstanding principal balance of the note payable less unamortized debt issuance costs was \$19,092. As of December 31, 2015, unamortized debt issuance costs of \$5,684 consist of debt issuance costs of \$6,468 less accumulated amortization of \$784. During the year ended December 31, 2016 and 2015, amortization expense incurred was \$784 and was included in interest expense in the statement of functional expenses.

Non-interest bearing note payable to NHHFA assumed by LACLT through the purchase of LNI, LP on April 4, 2016. The note is collateralized by a mortgage on real estate located in Laconia, New Hampshire. Payments are due from cash surplus until the loan matures in full on July 31, 2040. The original loan amount was \$150,000. The balance outstanding at December 31, 2016 and 2015 was \$76,927 and \$0, respectively.

Non-interest bearing note payable to Belknap County, New Hampshire assumed by LACLT through the purchase of LNI, LP on April 4, 2016. The note is collateralized by a mortgage on real estate located in Laconia, New Hampshire. No payments are due provided the property meets certain provisions covered under the Community Development Block Grant program through December 31, 2030. The original loan amount was \$464,000. The balance outstanding at December 31, 2016 and 2015 was \$464,000 and \$0, respectively.

Note payable to USDA Rural Development ("RD") assumed by LACLT through the purchase of Harvey Heights on November 1, 2016. The note is payable over a 30-year period, with an original loan amount of \$368, due November 1, 2046, with interest at the rate of 2.875%. Under an interest credit agreement signed at the outset of the project, RD reduces interest paid on the mortgage to 1%, resulting in a monthly debt service payment of \$1. Additionally, rents collected in excess of the base rent (overage) are remitted to RD as additional interest. The balance of the mortgage payable at December 31, 2016 and 2015 was \$368 and \$0, respectively.

Note payable to RD assumed by LACLT through the purchase of Harvey Heights on November 1, 2016. The note is payable over a 30-year period, with an original loan amount of \$145,330, due November 1, 2046, with interest at the rate of 2.875%. Under an interest credit agreement signed at the outset of the project, RD reduces interest paid on the mortgage to 1%, resulting in a monthly debt service payment of \$308. Additionally, rents collected in excess of the base rent (overage) are remitted to RD as additional interest. The balance of the mortgage payable at December 31, 2016 and 2015 was \$145,330 and \$0, respectively.

Note payable to RD in the amount of \$3,690,172 to purchase Harvey Heights on November 1, 2016. The note is collateralized by a mortgage on real estate located in Ashland and Meredith, New Hampshire. The note is payable over a 30-year period, due November 1, 2046, with interest at the rate of 2.875%. Under an interest credit agreement signed at the outset of the project, RD reduces interest paid on the mortgage to 1%, resulting in a monthly debt service payment of \$7,828. Additionally, rents collected in excess of the base rent (overage) are remitted to RD as additional interest. The balance of the mortgage payable at December 31, 2016 and 2015 was \$3,690,172 and \$0, respectively.

LACONIA AREA COMMUNITY LAND TRUST, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

7. Long-term Debt (continued)

Non-interest bearing repayable investment - payable to Local Initiatives Support Corporation ("LISC"). The loan is for the payment of predevelopment costs related to the Gilford Village Knolls Phase III affordable housing project. The agreement calls for advances up to \$45,000 and is payable on the earlier to occur of (i) the close of permanent financing for the project, or (ii) December 31, 2017. If the project cannot proceed due to a lack of financing or for some other reason, repayment of the note shall not be required. The balance outstanding at December 31, 2016 and 2015 was \$45,000 and \$0, respectively.

Maturities of long-term debt are as follows:

<u>December 31,</u>	
2017	\$ 284,372
2018	321,550
2019	69,488
2020	71,729
2021	72,197
Thereafter	<u>5,789,523</u>
Total long-term debt	6,608,859
Less: unamortized debt issuance costs	<u>(\$12,505)</u>
Total	<u>\$6,596,354</u>

8. Property Liens

New Hampshire Housing Finance Authority

NHHFA has provided funding for the renovation of LACLCT's Avery Hill property. NHHFA has placed a land use restriction on the property. The restriction limits the use of the property through October 2027.

NHHFA has provided funding for the renovation of LACLCT's Pine Hill property. NHHFA has placed a restriction on the property. The restriction states that the property may not be sold for a period of thirty years from the date of construction. If the property is sold within thirty years, then LACLCT becomes liable to NHHFA for the contracted amount. LACLCT's intention is to retain the property for the contract period.

NHHFA has provided funding for the renovation of LACLCT's LNI property. NHHFA has placed a land use restriction on the property. The restriction limits the use of the property through January 2041.

9. In-Kind Contributions

During the year ended December 31, 2016, a parcel of land in Laconia, New Hampshire valued at \$3,600 was donated to LACLCT.

A considerable amount of volunteer time, of which no readily ascertainable value could be obtained, was not recorded on the books of LACLCT for the years ended December 31, 2016 and 2015.

LACONIA AREA COMMUNITY LAND TRUST, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

10. Grants and Awards

LACLT received \$357,046 and \$621,252 in grants and awards during the years ended December 31, 2016 and 2015, respectively. Grants are recorded when the awards are received.

11. Functional Allocation of Expenses

Expenses are charged to programs and supporting services on the basis of periodic time and expense studies. General and administrative expenditures include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of LACLT.

12. Restricted Reserves

Avery Hill

LACLT entered into a Regulatory Agreement with NHHFA in connection with the mortgage on Avery Hill. See Note 8. The Agreement requires LACLT to make monthly deposits in the amount of \$450 into a reserve for replacements. Withdrawals from this account cannot be made without the consent of NHHFA.

Restricted cash for the Avery Hill property were as follows:

	2016	2015
Replacement reserve	\$ 63,449	\$ 58,040
Operating reserve	22,932	22,928
Real estate tax escrow	7,469	235
Insurance escrow	3,521	3,379
Residual receipts reserve	111	111
Total	<u>\$ 97,482</u>	<u>\$ 84,693</u>

Pine Hill

LACLT entered into a Regulatory Agreement with NHHFA in connection with the mortgage on Pine Hill. See Note 8. The Agreement requires LACLT to make monthly deposits in the amount of \$625 into a reserve for replacements. Withdrawals from this account cannot be made without the consent of NHHFA.

Restricted cash for the Pine Hill property were as follows:

	2016	2015
Replacement reserve	\$ 77,186	\$ 69,676
Operating reserve	8,645	8,645
Tax and insurance escrow	12,760	3,079
Total	<u>\$ 98,591</u>	<u>\$ 81,400</u>

LACONIA AREA COMMUNITY LAND TRUST, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

12. Restricted Reserves (continued)

LNI

LACLT entered into a Regulatory Agreement with NHHFA in connection with the mortgage on LNI. See Note 8. The Agreement requires LACLT to make monthly deposits in the amount of \$750 into a reserve for replacements. Withdrawals from this account cannot be made without the consent of NHHFA.

Restricted cash for the LNI property were as follows:

	2016
Replacement reserve	\$ 91,914
Operating reserve	70,742
Tax and insurance escrow	11,318
Total	\$ 173,974

Harvey Heights

LACLT entered into Regulatory Agreements with RD in connection with the mortgages on Harvey Heights. See Note 8. The Agreement requires LACLT to make monthly deposits in the amount of \$5,805 into a reserve for replacements. Withdrawals from this account cannot be made without the consent of RD.

Restricted cash for the Harvey Heights property were as follows:

	2016
Replacement reserve	\$ 297,879
Restricted cash held in escrow	25,729
Tax and insurance escrow	18,893
Total	\$ 342,501

13. Ground Lease

LACLT entered into a ground lease with an individual on March 21, 2003. The lease of land on Jameson Street, Laconia, is for a period of ninety-nine years with an option to renew for an additional period of ninety-nine years. The lease calls for monthly payments of \$25.

14. Concentration of Credit Risk

Financial instruments that potentially subject LACLT to a concentration of credit risk consist principally of cash and cash equivalents. LACLT cash balances at December 31, 2016 were FDIC insured, or collateralized by the bank's assets.

LACLT receives approximately 24% of its funding from grants. A reduction in the funding would impair its ability to operate. LACLT's management does not anticipate a reduction in funding.

LACONIA AREA COMMUNITY LAND TRUST, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

15. Equity Equivalent Investment

LACLT received an equity equivalent investment in the amount of \$110,000 from Meredith Village Savings Bank during the year ended December 31, 2008. A promissory note has been entered into requiring repayment of this investment on or before December 19, 2018 or such later date as may be determined by the lender. Interest shall be payable at an annual rate of 3% commencing on December 19, 2009 and at maturity. The outstanding balance at December 31, 2016 and 2015 was \$110,000 and \$110,000, respectively.

16. Amortization

Debt issuance costs, net of accumulated amortization, are presented as a deduction from the carrying value of the mortgage notes payable. Debt issuance costs include finance fees of \$6,468 which are amortized over 66 months, \$13,064 which are amortized over 20 years, \$22,501 which are amortized over 30 years, and \$4,343 which are amortized over 40 years. Amortization expense for the years ended December 31, 2016 and 2015 was \$3,483 and \$1,076, respectively. Amortization expense on debt issuance costs has been included as interest expense on the statement of functional expenses.

17. Commitments and Contingencies

LACLT has acted as sponsor for various low-income and affordable housing developments. These developments have received various forms of funding from federal, state and local sources. The terms of these funding agreements generally require that the projects maintain affordable housing and low-income eligibility status. If such status is not maintained, LACLT may be obligated to remedy any defaults in the requirements and may be liable to repay certain amounts to investors and lenders. Management is not aware of any instances of noncompliance that would impair its assets.

In addition, LACLT, as project sponsor, has, in some cases, agreed to advance funds to its related partnerships as guarantor of its or the general partner's obligation to fund operating deficits, development cost overruns, payments for reduced tax benefits to investors and other circumstances affecting the partnerships, as defined in the partnership agreements. As of the date of this report, LACLT was not obligated for any balance over what had been paid or advanced through December 31, 2016, see Note 6.

LACLT received a grant from Meredith Village Savings Bank in the amount of \$400,000 during the year ended December 31, 2014. The grant was restricted to the rehabilitation of rental real estate for the Harriman Hill Phase II project. LACLT entered into an affordable housing program agreement with Meredith Village Savings Bank. The agreement stipulates that the project comply with certain affordability restrictions for 20 years. If the stipulations of the agreements are not met, the grant is subject to recapture in full. LACLT believes it is in compliance with the restrictions at December 31, 2016 and 2015.

18. Loss on Disposition of Investment

During the year ended December 31, 2016, LACLT purchased the assets of LNI, LP. As a result of the purchase, LACLT disposed of its investment in the partnership and recognized a loss of \$195,755.

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

To the Board of Directors
Laconia Area Community Land Trust, Inc.
Laconia, New Hampshire

We have audited, in accordance with the 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 Laconia Area Community Land Trust (LACLT), Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2016, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 23, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered LACLT'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 LACLT's internal control. Accordingly, we do not express an opinion on the effectiveness of LACLT'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.

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 that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether LACLT's 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 the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Nesseralla & Company, LLC

Manchester, New Hampshire

March 23, 2017

LACONIA AREA COMMUNITY LAND TRUST, INC.
SUPPLEMENTAL SCHEDULE OF RENTAL INCOME AND EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2016

	Elm (Fore) Street	44 Pearl Street	155/157 Oak Street	24 Walnut Street	334 South Main Street	199 Washington Street	79 Lincoln Street	21 Winter Street
Rental and Other Income	\$ 18,831	\$ 21,330	\$ 19,790	\$ 17,996	\$ 22,618	\$ 16,556	\$ 18,357	\$ 32,411
Operating Expenses								
Insurance	1,808	952	836	1,140	952	836	1,044	2,152
Advertising	15	8	8	11	11	8	8	19
Professional fees	540	450	600	585	600	570	524	585
Depreciation	8,128	4,145	5,358	3,426	2,499	5,608	6,015	5,661
Bad debt expense	1,274	-	-	-	-	-	148	737
Repairs and maintenance	20,503	3,803	1,142	5,357	3,162	6,905	6,435	5,781
Utilities	5,983	982	1,637	1,143	866	1,944	1,555	3,453
Snow and trash removal	838	362	381	553	572	344	400	955
Property taxes	4,514	3,824	3,314	4,296	3,300	3,035	4,066	3,413
Water and sewer	3,186	1,271	893	1,818	1,556	811	1,337	1,620
Miscellaneous	157	38	38	97	58	75	53	95
Management fees	2,916	1,458	1,458	2,187	2,187	1,458	1,458	3,645
Interest	1,110	926	-	-	-	-	-	91
Interest - amortization of debt issuance costs	634	19	-	-	-	-	1,734	-
Total Operating Expenses	51,606	18,238	15,665	20,613	15,763	21,594	24,777	28,207
Income (Loss)	\$ (32,775)	\$ 3,092	\$ 4,125	\$ (2,617)	\$ 6,855	\$ (5,038)	\$ (6,420)	\$ 4,204

Supplemental Information:

Principal repayment of loans	4,356	3,639	-	-	-	-	-	5,961
Depreciation	8,128	4,145	5,358	3,426	2,499	5,608	6,015	5,661

See accompanying notes

LACONIA AREA COMMUNITY LAND TRUST, INC.
SUPPLEMENTAL SCHEDULE OF RENTAL INCOME AND EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2016

	23 Winter Street	Frances Court	Noyes Road	Avery Hill	Pine Hill	LNI	Harvey Heights	Totals
Rental and Other Income	\$ 26,235	\$ 83,910	\$ 10,200	\$ 109,911	\$ 147,469	\$ 96,208	\$ 94,066	\$ 735,888
Operating Expenses								
Insurance	2,152	3,654	380	4,876	8,428	6,409	3,417	39,036
Advertising	19	-	-	53	198	48	469	875
Professional fees	509	-	-	1,425	1,364	855	-	8,607
Depreciation	7,138	16,775	3,491	26,314	15,450	3,632	10,793	124,433
Bad debt expense	1,248	-	-	-	2,371	-	2,394	8,172
Repairs and maintenance	12,784	9,291	632	24,997	36,157	24,221	26,590	187,760
Utilities	4,129	1,596	-	-	12,263	3,569	4,756	43,876
Snow and trash removal	878	6,676	-	4,644	4,670	2,800	5,255	29,328
Property taxes	3,426	9,704	2,719	12,012	15,999	10,429	7,861	91,912
Water and sewer	2,070	8,003	320	9,965	11,441	7,118	3,488	54,897
Miscellaneous	148	236	-	450	641	374	497	2,957
Management fees	3,645	7,440	-	10,206	13,122	10,045	7,750	68,975
Interest	89	16,920	-	-	2,442	897	18,659	41,134
Interest - amortization of debt issuance costs	-	-	-	-	312	784	-	3,483
Total Operating Expenses	38,235	80,295	7,542	94,942	124,858	71,181	91,929	705,445
Income (Loss)	\$ (12,000)	\$ 3,615	\$ 2,658	\$ 14,969	\$ 22,611	\$ 25,027	\$ 2,137	\$ 30,443

Supplemental Information:

Principal repayment of loans	6,538	16,447	-	-	18,282	3,046	-	58,269
Depreciation	7,138	16,775	3,491	26,314	15,450	3,632	10,793	124,433

See accompanying notes