

HABITAT FOR HUMANITY OF MINNESOTA, INC.
Minneapolis, Minnesota

FINANCIAL STATEMENTS
Including Independent Auditors' Report

As of and for the Years Ended June 30, 2016 and 2015

HABITAT FOR HUMANITY OF MINNESOTA, INC.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Habitat for Humanity of Minnesota, Inc.
Minneapolis, Minnesota

We have audited the accompanying financial statements of Habitat for Humanity of Minnesota, Inc. (the "Organization"), which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities, functional expenses and cash flows for the years 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 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 auditors' 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 the Organization as of June 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Baker Tilly Virchow Krause, LLP

Minneapolis, Minnesota
October 28, 2016

HABITAT FOR HUMANITY OF MINNESOTA, INC.

STATEMENTS OF FINANCIAL POSITION
As of June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and cash equivalents	\$ 519,421	\$ 378,376
Cash and cash equivalents - restricted	745,819	1,063,436
Short-term investments	387,305	498,668
Grants, accounts, and interest receivable	536,782	81,073
Prepaid expenses and other assets	29,367	5,619
Property and equipment, net	7,648	3,441
Loans receivable	41,333,014	39,842,171
Allowance for loan losses	(62,000)	(59,763)
Unamortized discount on loans receivable	<u>(9,252,552)</u>	<u>(9,518,632)</u>
Net loans receivable	<u>32,018,462</u>	<u>30,263,776</u>
TOTAL ASSETS	<u>\$ 34,244,804</u>	<u>\$ 32,294,389</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 47,580	38,520
Assistance to affiliates payable	127,730	138,948
Accrued payroll expenses	27,691	20,493
Accrued vacation	8,016	6,905
Deferred fee income	391,251	392,887
Other accrued expenses	120,368	122,160
CRV recoverable grants	-	116,500
Revolving loans payable	21,157,927	21,157,927
Notes payable	19,171,741	18,072,435
Unamortized discount on revolving loan and notes payable	<u>(9,681,517)</u>	<u>(9,972,822)</u>
Net loans and notes payable	30,648,151	29,257,540
Deposits on loans receivable from affiliates	<u>59,336</u>	<u>59,336</u>
Total Liabilities	<u>31,430,123</u>	<u>30,153,289</u>
NET ASSETS		
Unrestricted	2,364,681	2,106,100
Temporarily Restricted	<u>450,000</u>	<u>35,000</u>
Total Net Assets	2,814,681	2,141,100
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 34,244,804</u>	<u>\$ 32,294,389</u>

See accompanying notes to financial statements.

HABITAT FOR HUMANITY OF MINNESOTA, INC.

STATEMENTS OF ACTIVITIES
For the Years Ended June 30, 2016 and 2015

	2016			2015		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
OPERATING SUPPORT AND REVENUE						
Contributions	\$ 202,135	\$ 750,000	\$ 952,135	\$ 255,633	\$ 35,000	\$ 290,633
CRV grant revenue	375,200	-	375,200	237,800	-	237,800
Program fees	311,370	-	311,370	466,378	-	466,378
Interest income	544,635	-	544,635	498,510	-	498,510
Habitat 500 revenue	66,624	-	66,624	61,731	-	61,731
Net Assets Released from Restrictions	335,000	(335,000)	-	35,000	(35,000)	-
Total Support and Other Revenue	<u>1,834,964</u>	<u>415,000</u>	<u>2,249,964</u>	<u>1,555,052</u>	<u>-</u>	<u>1,555,052</u>
OPERATING EXPENSES						
Program expenses	1,330,524	-	1,330,524	1,298,575	-	1,298,575
Support services						
Management and general	108,223	-	108,223	119,511	-	119,511
Fundraising	112,411	-	112,411	102,221	-	102,221
Total Support Services	<u>220,634</u>	<u>-</u>	<u>220,634</u>	<u>221,732</u>	<u>-</u>	<u>221,732</u>
Total Expense	<u>1,551,158</u>	<u>-</u>	<u>1,551,158</u>	<u>1,520,307</u>	<u>-</u>	<u>1,520,307</u>
CHANGE IN NET ASSETS - OPERATING	283,806	415,000	698,806	34,745	-	34,745
NONOPERATING						
Loss on disposal of asset	-	-	-	(169)	-	(169)
Contribution of below market interest rate debt	432,795	-	432,795	878,067	-	878,067
Amortization of discounts on loans receivable	651,895	-	651,895	991,360	-	991,360
Discounts on loans receivable originated	(385,815)	-	(385,815)	(828,553)	-	(828,553)
Amortization of discounts on revolving loan and notes payable	(724,100)	-	(724,100)	(1,032,782)	-	(1,032,782)
CHANGE IN NET ASSETS - NONOPERATING	<u>(25,225)</u>	<u>-</u>	<u>(25,225)</u>	<u>7,923</u>	<u>-</u>	<u>7,923</u>
TOTAL CHANGE IN NET ASSETS	258,581	415,000	673,581	42,668	-	42,668
NET ASSETS - Beginning of Year	<u>2,106,100</u>	<u>35,000</u>	<u>2,141,100</u>	<u>2,063,432</u>	<u>35,000</u>	<u>2,098,432</u>
NET ASSETS - End of Year	<u>\$ 2,364,681</u>	<u>\$ 450,000</u>	<u>\$ 2,814,681</u>	<u>\$ 2,106,100</u>	<u>\$ 35,000</u>	<u>\$ 2,141,100</u>

See accompanying notes to financial statements.

HABITAT FOR HUMANITY OF MINNESOTA, INC.

STATEMENTS OF FUNCTIONAL EXPENSES
For the Years Ended June 30, 2016 and 2015

	2016				2015			
	Program	Management and General	Fundraising	Total	Program	Management and General	Fundraising	Total
Operating Expenses								
Payroll expenses	\$ 370,116	\$ 34,409	\$ 78,524	\$ 483,049	\$ 378,432	\$ 32,140	\$ 68,485	\$ 479,057
Office expenses	31,558	5,424	17,429	54,411	33,073	6,866	11,331	51,270
Professional services	38,978	9,662	4,520	53,160	-	33,272	-	33,272
Meetings and training	11,741	7,239	3,769	22,749	29,002	13,850	7,196	50,048
Interest expense	437,929	-	-	437,929	404,896	-	-	404,896
Travel	8,486	7,637	7,322	23,445	9,677	1,304	11,933	22,914
Insurance	-	4,516	667	5,183	-	4,897	25	4,922
Equipment expense	-	1,392	-	1,392	-	3,885	249	4,134
Loan trustee fees	16,100	-	-	16,100	16,100	-	-	16,100
Advertising	5	18	38	61	-	2,573	461	3,034
Administrative	3,340	31,260	142	34,742	21,894	11,902	1,500	35,296
Other	-	1,554	-	1,554	6,068	1,491	1,041	8,600
Tithe	11,516	-	-	11,516	18,151	-	-	18,151
VISTA stipends	23,318	-	-	23,318	141,343	-	-	141,343
CRV grant expense	375,200	-	-	375,200	237,800	-	-	237,800
Provision for loan losses	2,237	-	-	2,237	2,139	-	-	2,139
Depreciation	-	5,112	-	5,112	-	7,331	-	7,331
Total Operating	1,330,524	108,223	112,411	1,551,158	1,298,575	119,511	102,221	1,520,307
Non-operating Expenses								
Discounts on loans receivable originated	385,815	-	-	385,815	828,553	-	-	828,553
Amortization of discounts on revolving loan and notes payable	724,100	-	-	724,100	1,032,782	-	-	1,032,782
Total Nonoperating	1,109,915	-	-	1,109,915	1,861,335	-	-	1,861,335
Total Expenses	\$ 2,440,439	\$ 108,223	\$ 112,411	\$ 2,661,073	\$ 3,159,910	\$ 119,511	\$ 102,221	\$ 3,381,642
Percentage based on operating expenses	85.8%	7.0%	7.2%	100.0%	85.4%	7.9%	6.7%	100.0%
Percentage based on total expenses	91.7%	4.1%	4.2%	100.0%	93.4%	3.5%	3.0%	100.0%

See accompanying notes to financial statements.

HABITAT FOR HUMANITY OF MINNESOTA, INC.

STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2016 and 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 673,581	\$ 42,668
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	5,112	7,331
Loss on disposition of asset	-	169
Contribution of below market interest rate debt	(432,795)	(878,067)
Contribution of a vehicle	(7,200)	-
Discounts on loans receivable originated	385,815	828,553
Amortization of discounts on loans receivable	(651,895)	(991,360)
Amortization of discounts on revolving loan and notes payable	724,100	1,032,782
Provision for loan losses	2,237	2,139
Changes in operating assets and liabilities		
Grants, accounts and interest receivable	(455,709)	8,524
Prepaid expenses and other assets	(23,748)	(327)
Accounts payable	9,060	2,102
Assistance to affiliates payable	(11,218)	34,483
Accrued payroll expenses	7,198	(351)
Accrued vacation	1,111	(983)
Deferred fee income	(1,636)	(15,984)
CRV recoverable grants	(116,500)	94,500
Other accrued expenses	(1,792)	13,598
Net Cash Flows From Operating Activities	105,721	179,777
CASH FLOWS FROM INVESTING ACTIVITIES		
Changes in restricted cash and cash equivalents	317,617	33,696
Collections on loans receivable	2,891,064	2,606,708
Purchase of short-term investments	(387,305)	(498,668)
Proceeds on maturity of short-term investments	498,668	497,425
Purchase of equipment	(2,119)	-
Loans receivable issued	(4,381,907)	(4,032,794)
Net Cash Flows From Investing Activities	(1,063,982)	(1,393,634)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on notes payable	(900,694)	(823,671)
Proceeds from issuance of notes payable	2,000,000	2,000,000
Net Cash Flows From Financing Activities	1,099,306	1,176,329
Change in Cash and Cash Equivalents	141,045	(37,528)
CASH AND CASH EQUIVALENTS - Beginning of Year	378,376	415,904
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 519,421	\$ 378,376
Supplemental cash flow disclosures		
Cash paid for interest	\$ 429,722	\$ 396,309

See accompanying notes to financial statements.

HABITAT FOR HUMANITY OF MINNESOTA, INC.

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2016 and 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Habitat for Humanity of Minnesota, Inc. (the "Organization") is a Minnesota not-for-profit organization that was incorporated in 1997. The Organization was created by the Habitat for Humanity affiliates in the State of Minnesota to help them be successful in achieving their goal of eliminating poverty housing from their service areas. At June 30, 2016, there were 31 affiliates providing housing solutions for approximately 300 families per year. The Organization manages programs which provide a broad range of support to the affiliates, primarily in the areas of resource development, training, and building awareness. The main program provided by the Organization is a lending program designed to provide Habitat affiliates with a form of secondary market for their 0% interest long-term mortgage loans made to Habitat homeowners. Through the Organization's lending program, Habitat affiliates can generate more resources to build homes by converting their mortgages into cash, which provides them the opportunity to build more homes. Through the Organization's programs, Minnesota Habitat affiliates have quadrupled the number of families served annually since 1997. The Organization was certified by the U.S. Department of Treasury on December 7, 2000 as a Community Development Financial Institution (CDFI).

During the year ended June 30, 2015, the Organization received a grant from the Corporation for National and Community Service to operate an AmeriCorps VISTA (Volunteers in Service to America) program. This grant provided funding for the Organization to place a total of 21 full-year and 24 summer VISTA volunteers with affiliates around the state. These VISTA volunteers carry out capacity building programs to help Habitat affiliates reduce poverty in their communities.

During the year ended June 30, 2016, the Organization received a \$750,000 grant from the CDFI Fund which is recorded in contribution revenue. These funds are to be utilized to supplement the resources deployed for the Organization's lending program. All resources must be deployed by June 30, 2019. Amounts yet to be received related to this grant were \$450,000 at June 30, 2016 and are recorded in grants receivable.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization are classified and reported as follows:

Unrestricted Net Assets - Resources over which the board of directors (the Board) has discretionary control.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Organization pursuant to those stipulations. Restricted contributions received in the same year in which the restrictions are met are recorded as an increase in unrestricted support at the time of receipt. The Organization had \$450,000 and \$35,000 in temporarily restricted net assets for the CDFI grant and sustainable building program at June 30, 2016 and 2015, respectively.

Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, the donors of such assets permit the Organization to use all or part of the income earned on the assets. The Organization currently has no permanently restricted net assets.

Non-Operating Activities

Non-operating activities include all non-cash activities relating to the discounting of loans payable and receivable.

HABITAT FOR HUMANITY OF MINNESOTA, INC.

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2016 and 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and Cash Equivalents

The Organization defines cash equivalents as highly liquid, short-term investments with a maturity at the date of acquisition of three months or less. The Organization maintains its cash and cash equivalents in money market mutual funds and bank deposit accounts at high credit quality financial institutions. The bank balances, at times, may exceed federally insured limits. Restricted cash is primarily related to loan proceeds, repayment and reserve accounts and amounts collected from the Habitat 500 bike ride to be distributed to affiliates.

Short-Term Investments

Short-term investments are recorded at cost and consist of certificates of deposit with initial maturities of greater than three months. Due to their short term nature, cost approximates fair value.

Loans Receivable

Loans receivable, which are issued to affiliates at below market interest rates, are initially recorded at fair market value by discounting the receivable balance. The discount is then amortized into income over the life of the loan receivable using the effective interest method.

The Organization accounts for uncollectible receivables by the reserve method based on management's best estimate and past history of collections. Receivables are assessed individually for collectability based on the surrounding facts and circumstances and management's past history of collections. Additional interest is not accrued on past due accounts. When all collection efforts have been exhausted, the accounts are written off.

Assistance to Affiliate Payable

The Organization operates an annual bike ride primarily for the benefit of its affiliates and other Habitat organizations. Participants directly identify the recipient of their contributions and all amounts collected for others are recorded as assistance to affiliates payable and are disbursed regularly.

Deferred Fee Income

The Organization charges an origination fee on new loans receivable. The fee income is amortized over the term of the related loan in a method consistent with the amortization of the discount on the loans.

Property and Equipment

Property and equipment are stated at cost, if purchased, or fair market value at the date of the gift, if donated. All acquisitions of property and equipment in excess of \$1,500 and all expenditures for improvements and betterments that materially prolong the useful lives of assets are capitalized and depreciated on a straight line basis over a range of 3-5 years. Maintenance, repairs, and minor improvements are expensed as incurred. When assets are retired or otherwise disposed of, their costs and related accumulated depreciation are removed from the accounts and resulting gains or losses are included in income.

Discount on Notes Payable

Notes payable, which are issued to the Organization at below market interest rates, are initially recorded at fair market value by discounting the payable balance. The discount is then amortized into expense over the life of the note payable using the effective interest method.

HABITAT FOR HUMANITY OF MINNESOTA, INC.

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended June 30, 2016 and 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contributions

Contributions are recognized when received in the form of a pledge or cash. Promises to give are recorded at net realizable value. Conditional promises to give are not included as support until such time as the conditions are substantially met.

Contributed Services

Contributions of services are recognized if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Contributed services that do not meet these criteria are not recognized. The Organization receives services donated by volunteers, which do not meet the above criteria for recognition in the financial statements.

Functional Allocation of Expense

Salaries and related expenses are allocated based on job descriptions and the best estimates of management. Expenses, other than salaries and related expenses which are not directly identifiable by program or support service, are allocated based on management's consideration of actual expenses charged to each category, as well as by estimates developed by personnel regarding time spent in each category.

Tax-Exempt Status

The Organization has received notification that it qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and corresponding provisions of State law and, accordingly, is not subject to federal or state income taxes. However, any unrelated business income may be subject to taxation. The Organization has been classified as a publicly supported charitable organization under Section 509(A)(1) of the Code and charitable contributions are deductible by donors.

The Organization follows the accounting standards for contingencies in evaluating uncertain tax positions. This guidance prescribes recognition threshold principles for the financial statement recognition of tax positions taken or expected to be taken on a tax return that are not certain to be realized. No liability has been recognized by the Organization for uncertain tax positions as of June 30, 2016 and 2015. The Organization's tax returns are subject to review and examination by federal and state authorities.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

HABITAT FOR HUMANITY OF MINNESOTA, INC.

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended June 30, 2016 and 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, *Revenue from Contracts with Customers*. This new guidance outlines a single comprehensive model for entities to use in accounting for revenue from contracts with customers. ASU 2014-09 is effective date for fiscal years beginning after December 15, 2018 (fiscal year 2020). Early application is permitted for fiscal years beginning after December 15, 2016. The Organization is assessing the impact this new standard will have on its financial statements.

In February 2016, FASB issued ASU No. 2016-02, *Leases*. ASU No. 2016-02 was issued to increase transparency and comparability among entities. Lessees will need to recognize nearly all lease transactions (other than leases that meet the definition of a short-term lease) on the statement of financial position as a lease liability and a right-of-use asset (as defined). Lessor accounting under the new guidance will be similar to the current model. ASU No. 2016-02 is effective for fiscal years beginning after December 15, 2019 (fiscal year 2021). Early application is permitted. Upon adoption, lessees and lessors will be required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach, which includes a number of optional practical expedients that entities may elect to apply. The Organization is assessing the impact this standard will have on its financial statements.

In August 2016, FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The new guidance improves and simplifies the current net asset classification requirements and information presented in financial statements and notes that is useful in assessing a not-for-profit’s liquidity, financial performance and cash flows. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017 (fiscal year 2019), with early adoption permitted. ASU 2016-14 is to be applied retroactively with transition provisions. The Organization is assessing the impact this standard will have on its financial statements.

Subsequent Events

The Organization has evaluated subsequent events through October 28, 2016, which is the date that the financial statements were approved and available to be issued.

HABITAT FOR HUMANITY OF MINNESOTA, INC.

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended June 30, 2016 and 2015

NOTE 2 - LOANS RECEIVABLE

The Organization's primary activity is to make loans to affiliates building homes in the State of Minnesota. These affiliates are also tax exempt organizations described in Section 501(c)(3) of the Internal Revenue Code. Affiliates' borrowings are collateralized by mortgage notes that affiliates issued to homeowners.

	2016	2015
Various affiliates, non-interest bearing, lump sum payments due in 2018 through 2023	\$ 207,372	\$ 207,372
Various affiliates, 3% interest, monthly payments through November 1, 2021	548,589	738,936
Various affiliates, 1% interest, monthly payments through June 1, 2023	148,601	173,040
Various affiliates through the revolving loan fund, non-interest bearing, monthly payments through February 1, 2044	21,108,219	21,008,376
Various affiliates, 2.25%, 2.5%, 2.6% and 3.0% interest, monthly payments through July 1, 2041	19,320,233	17,714,447
Total loans receivable	41,333,014	39,842,171
Less: Unamortized discount	(9,252,552)	(9,518,632)
Less: Allowance for loan losses	(62,000)	(59,763)
Net Loans Receivable	\$ 32,018,462	\$ 30,263,776

All loans receivable are discounted based on the fair market interest rate at the time the funds are advanced. The fair market rate for 2016 and 2015 was based on a 60 basis point spread over 30-year Treasury bills. The discount rates used for the loans advanced in the years ended June 30, 2016 and 2015 were 3.80% and 4.00%, respectively. Loans receivable represent 93.5% and 93.7% of total assets as of June 30, 2016 and 2015, respectively.

Maturities of loans receivable based on the face amount of the loans are as follows at June 30, 2016:

Amounts due in fiscal year:	
2017	\$ 2,456,572
2018	2,502,197
2019	2,446,709
2020	2,410,892
2021	2,233,371
Thereafter	29,283,273
Total	\$ 41,333,014

HABITAT FOR HUMANITY OF MINNESOTA, INC.

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended June 30, 2016 and 2015

NOTE 2 - LOANS RECEIVABLE (continued)

The Organization conducts a quarterly evaluation of each affiliate borrower utilizing financial statements and mortgage portfolio quality reports. Ratios and percentages are calculated on a five point scale in seven categories as established in the Organization's Board-established Loan Policy. The resulting Credit Risk Rating (CRR) is utilized to establish the appropriate level of provision for loan losses at fiscal year end. A pool reserve of 15 basis points has been established for all borrowers with a CRR of 4 or better. The provision for loan loss at a CRR of 5 is based on the projected impairment amount. As of June 30, 2016 and 2015, the provision for loan loss was set at the pool reserve and there were no projected impairment amounts.

A loan is considered delinquent when the affiliate borrower fails to make a contractually due payment within five days of the due date. Collection processes are established in the Organization's Loan Policy. As of June 30, 2016 and 2015, 100% of the Organization's loans were current.

At such time as the occurrence of a failure to collect payments from the affiliate borrower is combined with a shortfall in proceeds from collection, foreclosure or liquidation of the underlying pledged mortgage, the Organization will write-off the loan. For each of the years ended June 30, 2016 and 2015, no amounts were written-off.

The following table presents a summary of the activity for the provision for loan losses for the years ended June 30:

	<u>2016</u>	<u>2015</u>
Beginning balance	\$ 59,763	\$ 57,624
Provision for loan losses	<u>2,237</u>	<u>2,139</u>
Ending balance	<u>\$ 62,000</u>	<u>\$ 59,763</u>

NOTE 3 - PROPERTY AND EQUIPMENT

A summary of property and equipment and accumulated depreciation at June 30 is as follows:

	<u>2016</u>	<u>2015</u>
Furniture and equipment	\$ 24,148	\$ 22,029
Vehicle	7,200	-
Less: Accumulated depreciation	<u>(23,700)</u>	<u>(18,588)</u>
Property and equipment, net	<u>\$ 7,648</u>	<u>\$ 3,441</u>

HABITAT FOR HUMANITY OF MINNESOTA, INC.

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2016 and 2015

NOTE 4 - CRV RECOVERABLE GRANTS

The Organization has received six CRV recoverable grant awards since the year ended June 30, 2009. These recoverable grants were provided by the Minnesota Housing Finance Agency (MHFA) under their Community Revitalization Fund Program. Funds are to be utilized in accordance with a "Fund Availability, Disbursement, and Loan / Grant Agreement" that specifies the terms under which grant funds are recoverable. Grant funds that have not yet been disbursed for their intended purpose constitute the primary liability to the Organization. Grant funds are to be disbursed to "Owner-Occupants" to acquire "Qualified Dwelling Units". Each disbursement is evidenced by a Second Note secured by a Second Mortgage on the Qualified Dwelling Unit. The Organization is to receive repayment of funds from Owner-Occupants if they no longer occupy the Qualified Dwelling Unit at any time during a thirty-year period. After the thirty-year period, repayment by the Owner-Occupant is not required. Should the Organization ever receive such a repayment, it would then need to repay MHFA unless the Organization, within 6 months, re-disburses that amount to another Owner-Occupant to acquire another Qualified Dwelling Unit.

These recoverable grant awards total \$2,378,000, of which \$350,000 is for CRV #1, \$250,000 is for CRV #2, \$304,000 is for CRV #3, \$306,000 is for CRV #4, \$345,000 is for CRV #5, \$300,000 is for CRV #6, \$322,000 is for CRV #7, and \$201,000 is for CRV #8. During the years ended June 30, 2016 and 2015, the Organization disbursed \$375,200 and \$237,800, respectively, to Owner-Occupants of Qualified Dwelling Units. There were no unspent funds as of June 30, 2016. The undistributed portion of \$116,500 as of June 30, 2015, is shown as both a liability and restricted cash and cash equivalents in the accompanying statements of financial position. As disbursements are made to Owner-Occupants, grant revenue and program expense is reflected in the statement of activities as the Organization believes it has fulfilled the grant purpose. Neither a receivable nor a payable for the distributed portion of the grant is reflected in the statement of financial position as collection of the recoverable grants and ultimate repayment to MHFA is considered remote.

NOTE 5 - REVOLVING LOAN PAYABLE

The Organization entered into a revolving loan agreement with the MHFA on December 22, 2000. The agreement was amended on September 9, 2004. The agreement stipulates \$21,157,927 will be loaned to the Organization for the purpose of providing interest free mortgage financing to its network of affiliates. The loan is 0% interest and not payable as long as certain conditions are met. The conditions stipulate that the funds must be used to finance mortgages to low and moderate income families. Management believes the Organization is in compliance with these conditions. The loan payable is secured by the related loans receivable, the underlying homeowner notes and mortgages and funds held in the related proceeds and repayment accounts. The revolving loan balance at June 30, 2016 and 2015 was \$21,157,927, respectively. The revolving loan is discounted based on the same discount used when the funds are loaned to affiliates. The unamortized discount at June 30, 2016 and 2015 was \$6,641,851 and \$6,857,626, respectively. The discounted rate on all loans ranges from 3.29% to 6.98%.

HABITAT FOR HUMANITY OF MINNESOTA, INC.

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended June 30, 2016 and 2015

NOTE 6 - NOTES PAYABLE

Notes payable consisted of the following at June 30:

	2016	2015
Note payable to MHFA, 3%, due in quarterly installments of \$10,834 through July 1, 2018	\$ 93,951	\$ 133,721
Note payable to MHFA, 3%, due in quarterly installments of \$10,834 through February 1, 2019	113,985	153,165
Note payable to MHFA, 3%, due in quarterly installments of \$10,834 through January 1, 2020	153,165	191,192
Note payable to Wells Fargo Housing Foundation, 1%, due in quarterly installments of \$4,833 through July 1, 2018	42,954	61,737
Note payable to Wells Fargo Housing Foundation, 1%, due in quarterly installments of \$4,833 through February 1, 2019	52,369	71,058
Note payable to Wells Fargo Housing Foundation, 1%, due in quarterly installments of \$4,833 through January 1, 2020	71,058	89,562
Note payable to Wells Fargo Housing Foundation, 1%, due in quarterly installments of \$4,833 through October 1, 2020	84,953	103,319
Note payable to Wells Fargo Housing Foundation, 1%, due in quarterly installments of \$4,833 through February 1, 2022	107,882	126,020
Notes payable to GMHF, non-interest bearing, unsecured, balance due in equal payments on December 31, 2017, March 31, 2019 and March 31, 2020	252,000	252,000
Note Payable to MHFA, 5%, unsecured, due in quarterly installments of \$17,574 through January 1, 2041	5,633,296	4,754,293
Note Payable to MHFA, 0%, unsecured, due in quarterly installments of \$20,000 through January 1, 2041	5,340,000	4,550,000
Note payable to MHFA, 2%, unsecured, due in quarterly installments of \$127,319 through January 1, 2035	7,226,128	7,586,368
Total notes payable	19,171,741	18,072,435
Less: Unamortized discount	(3,039,666)	(3,115,196)
Net Notes Payable	\$ 16,132,076	\$ 14,957,239

HABITAT FOR HUMANITY OF MINNESOTA, INC.

NOTES TO FINANCIAL STATEMENTS
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NOTE 6 - NOTES PAYABLE (continued)

Except as noted above, all notes payable are secured by the related loans receivable, the underlying homeowner notes and mortgages and funds held in the related proceeds, repayment and reserve accounts. Maturities of notes payable are as follows at June 30, 2016:

Year Ending June 30:	
2017	\$ 964,201
2018	1,067,474
2019	1,024,439
2020	964,322
2021	840,884
Thereafter	<u>14,310,420</u>
Total	<u>\$ 19,171,741</u>

The Organization is required to maintain two segregated, interest bearing cash accounts for loan repayments under security agreements. Under this arrangement, the borrower is required to deposit all funds into the repayment account and this must be equal to or greater than the quarterly payment that is next due. Surplus, if any, after allowable expenses may be transferred to a proceeds account for loans to affiliates.

All notes payable are discounted based on the fair market interest rate at the time the loans are received. The fair market rates used for the years ended June 30, 2016 and 2015 were based on a 60 basis point spread over 30 year treasury bills, which was 3.80% and 4.00%, respectively.

NOTE 7 - CONCENTRATIONS

During the years ended June 30, 2016 and 2015, the Organization received 98% of its financing through one institution, Minnesota Housing Finance Agency. The Organization is current on all notes payable.

As of June 30, 2016 and 2015, approximately 67% and 66%, respectively, of the loans made by the Organization were to the Twin Cities Habitat for Humanity affiliate.

NOTE 8 - RELATED PARTIES

Twin Cities Habitat for Humanity (TC-HFH) administers the Organization's payroll and employee benefit plans. At June 30, 2016 and 2015, the Organization owed TC-HFH \$36,667 and \$37,166, respectively for payroll paid for the Organization's employees. The administrative services are provided at no cost and the value of these services is not material to the financial statements.

Several of the Habitat for Humanity affiliates that receive loans and other services from the Organization have employees and volunteers that serve on the Habitat for Humanity of Minnesota, Inc. Board of Directors. The Organization follows a conflict of interest policy.

HABITAT FOR HUMANITY OF MINNESOTA, INC.

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended June 30, 2016 and 2015

NOTE 9 - 401(k) DEFINED CONTRIBUTION PLAN

The Organization's employees participate in a 401(k) defined contribution plan through Twin Cities Habitat for Humanity. Eligible employees may elect to defer up to 20% of their compensation. The Organization contributed an amount on behalf of each eligible participant equal to 100% of their contributions up to 3%. Contributions to the plan by the Organization were \$9,671 and \$9,700 for the years ended June 30, 2016 and 2015, respectively.