

HABITAT FOR HUMANITY OF MINNESOTA, INC.
Minneapolis, Minnesota

FINANCIAL STATEMENTS
Including Independent Auditors' Report

As of and for the Years Ended June 30, 2019 and 2018

HABITAT FOR HUMANITY OF MINNESOTA, INC.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Habitat for Humanity of Minnesota, Inc.
St. Paul, 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, 2019 and 2018, 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, 2019 and 2018, 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.



Minneapolis, Minnesota
October 25, 2019

HABITAT FOR HUMANITY OF MINNESOTA, INC.STATEMENTS OF FINANCIAL POSITION
As of June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
Cash and cash equivalents	\$ 883,741	\$ 902,384
Cash and cash equivalents - restricted	1,910,778	1,348,276
Interest receivable	41,252	43,395
Prepaid expenses and other assets	44,511	33,824
Property and equipment, net	10,802	2,824
Loans receivable	37,505,470	39,135,110
Allowance for loan losses	(56,258)	(58,700)
Unamortized discount on loans receivable	<u>(7,665,386)</u>	<u>(8,142,773)</u>
Net loans receivable	<u>29,783,826</u>	<u>30,933,637</u>
TOTAL ASSETS	<u>\$ 32,674,910</u>	<u>\$ 33,264,340</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 11,967	\$ 14,934
Assistance to affiliates payable	94,171	118,686
Accrued payroll expenses	24,442	66,243
Accrued vacation	7,456	5,773
Deferred fee income	347,681	364,399
Other accrued expenses	110,722	104,933
CRV recoverable grants	71,735	8,010
Revolving loans payable	21,157,927	21,157,927
Notes payable	16,082,769	17,125,183
Unamortized discount on revolving loan and notes payable	<u>(7,883,519)</u>	<u>(8,440,171)</u>
Net loans and notes payable	29,357,177	29,842,939
Deposits on loans receivable from affiliates	44,147	59,336
Total Liabilities	<u>30,069,498</u>	<u>30,585,253</u>
NET ASSETS		
Net assets without donor restrictions	<u>2,605,412</u>	<u>2,679,087</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 32,674,910</u>	<u>\$ 33,264,340</u>

See accompanying notes to financial statements.

HABITAT FOR HUMANITY OF MINNESOTA, INC.

STATEMENTS OF ACTIVITIES
For the Years Ended June 30, 2019 and 2018

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
OPERATING SUPPORT AND REVENUE						
Contributions	\$ 268,014	\$ -	\$ 268,014	\$ 258,893	\$ -	\$ 258,893
CRV grant revenue	155,800	-	155,800	314,536	-	314,536
Program fees	140,805	-	140,805	207,897	-	207,897
Interest income	544,074	-	544,074	548,010	-	548,010
Habitat 500 revenue	98,734	-	98,734	78,170	-	78,170
Bike to build revenue	-	-	-	9,045	-	9,045
Net assets released from restrictions	-	-	-	-	-	-
Total Support and Other Revenue	<u>1,207,427</u>	<u>-</u>	<u>1,207,427</u>	<u>1,416,551</u>	<u>-</u>	<u>1,416,551</u>
OPERATING EXPENSES						
Program expenses	1,026,917	-	1,026,917	1,175,216	-	1,175,216
Support services						
Management and general	106,344	-	106,344	101,955	-	101,955
Fundraising	68,575	-	68,575	51,861	-	51,861
Total Support Services	<u>174,919</u>	<u>-</u>	<u>174,919</u>	<u>153,816</u>	<u>-</u>	<u>153,816</u>
Total Expense	<u>1,201,836</u>	<u>-</u>	<u>1,201,836</u>	<u>1,329,032</u>	<u>-</u>	<u>1,329,032</u>
CHANGE IN NET ASSETS - OPERATING	5,591	-	5,591	87,519	-	87,519
NONOPERATING						
Amortization of discounts on loans receivable	671,947	-	671,947	846,597	-	846,597
Amortization of discounts on revolving loan and notes payable	<u>(751,213)</u>	<u>-</u>	<u>(751,213)</u>	<u>(909,845)</u>	<u>-</u>	<u>(909,845)</u>
CHANGE IN NET ASSETS - NONOPERATING	<u>(79,266)</u>	<u>-</u>	<u>(79,266)</u>	<u>(63,248)</u>	<u>-</u>	<u>(63,248)</u>
TOTAL CHANGE IN NET ASSETS	<u>(73,675)</u>	<u>-</u>	<u>(73,675)</u>	<u>24,271</u>	<u>-</u>	<u>24,271</u>
NET ASSETS - Beginning of Year	<u>2,679,087</u>	<u>-</u>	<u>2,679,087</u>	<u>2,654,816</u>	<u>-</u>	<u>2,654,816</u>
NET ASSETS - End of Year	<u>\$ 2,605,412</u>	<u>\$ -</u>	<u>\$ 2,605,412</u>	<u>\$ 2,679,087</u>	<u>\$ -</u>	<u>\$ 2,679,087</u>

See accompanying notes to financial statements.

HABITAT FOR HUMANITY OF MINNESOTA, INC.

STATEMENTS OF FUNCTIONAL EXPENSES
For the Years Ended June 30, 2019 and 2018

	2019				2018			
	Program	Management and General	Fundraising	Total	Program	Management and General	Fundraising	Total
Operating Expenses								
Payroll expenses	\$ 320,883	\$ 40,913	\$ 50,012	\$ 411,808	\$ 369,864	\$ 33,000	\$ 43,187	\$ 446,051
Office expenses	33,310	5,868	2,312	41,490	43,256	10,283	3,048	56,587
Professional services	130,016	30,122	15,224	175,362	42,717	8,615	3,590	54,922
Meetings and training	12,820	2,388	663	15,871	15,189	3,381	721	19,291
Interest expense	348,788	-	-	348,788	364,949	-	-	364,949
Travel	5,396	1,960	324	7,680	3,992	1,960	324	6,276
Insurance	125	4,803	-	4,928	2,232	6,444	-	8,676
Equipment expense	-	335	-	335	146	31	745	922
Loan trustee fees	14,758	-	-	14,758	16,100	-	-	16,100
Advertising	765	256	40	1,061	86	185	146	417
Administrative	2,422	72	-	2,494	1,069	238	100	1,407
Other	1,834	1,346	-	3,180	1,080	22,202	-	23,282
Tithe	-	18,000	-	18,000	-	13,616	-	13,616
CRV grant expense	155,800	-	-	155,800	314,536	-	-	314,536
Provisions for loan losses	-	(2,442)	-	(2,442)	-	(1,800)	-	(1,800)
Depreciation	-	2,723	-	2,723	-	3,800	-	3,800
Total Operating	1,026,917	106,344	68,575	1,201,836	1,175,216	101,955	51,861	1,329,032
Non-operating Expenses								
Amortization of discounts on revolving loan and notes payable	751,213	-	-	751,213	909,845	-	-	909,845
Total Nonoperating	751,213	-	-	751,213	909,845	-	-	909,845
Total Expenses	\$ 1,778,130	\$ 106,344	\$ 68,575	\$ 1,953,049	\$ 2,085,061	\$ 101,955	\$ 51,861	\$ 2,238,877
Percentage based on operating expenses	85%	9%	6%	100%	88%	8%	4%	100%
Percentage based on total expenses	91%	5%	4%	100%	93%	5%	2%	100%

See accompanying notes to financial statements.

HABITAT FOR HUMANITY OF MINNESOTA, INC.

STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2019 and 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (73,675)	\$ 24,271
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	2,723	3,800
Amortization of discounts on loans receivable	(671,947)	(846,597)
Amortization of discounts on revolving loan and notes payable	751,213	909,845
Provision for loan losses	(2,442)	(1,800)
Changes in operating assets and liabilities		
Interest receivable	2,143	9,289
Prepaid expenses and other assets	(10,687)	5,211
Accounts payable	(2,967)	3,258
Assistance to affiliates payable	(24,515)	(18,803)
Accrued payroll expenses	(41,801)	1,408
Accrued vacation	1,683	(2,047)
Deferred fee income	(16,718)	(1,525)
CRV recoverable grants	63,725	(57,386)
Other accrued expenses	5,789	(1,187)
Net Cash Flows From Operating Activities	(17,476)	27,737
CASH FLOWS FROM INVESTING ACTIVITIES		
Changes in restricted cash and cash equivalents	(562,502)	(17,355)
Collections on loans receivable	2,499,976	2,797,646
Proceeds on maturity of short-term investments	-	129,218
Purchase of equipment	(10,701)	-
Loans receivable issued	(885,526)	(1,634,757)
Net Cash Flows From Investing Activities	1,041,247	1,274,752
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on notes payable	(1,042,414)	(1,082,357)
Net Cash Flows From Financing Activities	(1,042,414)	(1,082,357)
Change in Cash and Cash Equivalents	(18,643)	220,132
CASH AND CASH EQUIVALENTS - Beginning of Year	902,384	682,252
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 883,741	\$ 902,384
Supplemental cash flow disclosures		
Cash paid for interest	\$ 350,300	\$ 363,149

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, 2019 and 2018

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, 2019, there were 28 affiliates providing housing solutions for approximately 270 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).

Net Asset Classifications

For the purposes of financial reporting, the Organization classifies resources into two net asset categories pursuant to any donor-imposed restrictions and applicable law. Accordingly, the net assets of the Organization are classified in the accompanying financial statements in the categories that follow:

Net Assets Without Donor Restrictions - Net assets that are not subject to donor-imposed stipulations. Board-designated net assets are net assets without donor restrictions subject to self-imposed limits by action of the governing board and may be earmarked for future programs, investment, contingencies, purchase or construction of fixed assets, or other uses. The Organization does not have any board-designated net assets.

Net Assets With Donor Restrictions - Net assets subject to donor-imposed stipulations that will be met by action of the Organization and/or passage of time. Some net assets with donor restrictions include a stipulation that assets provided be maintained permanently (perpetual in nature) while permitting the Organization to expend the income generated by the assets in accordance with the provisions of additional donor imposed stipulations or a Board approved spending policy. The Organization does not have any net assets with donor restrictions.

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, 2019 and 2018

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.

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, 2019 and 2018

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 Expenses

The financial statements report certain categories of expenses that are attributable to one or more program or supporting functions of the Organization. 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, 2019 and 2018. 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, 2019 and 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New Accounting Pronouncement Adopted in the Current Year

In August 2016, FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The Organization adopted ASU No. 2016-14 in fiscal year 2019. The new standard changes the following aspects of the financial statements: The unrestricted net asset class has been renamed net assets without donor restrictions; The temporarily and permanently restricted net asset classes have been combined into a single net asset class called net assets with donor restrictions; The financial statements include a disclosure about liquidity and availability of resources in Note 2. The Organization has applied the changes retrospectively to all periods presented, except for the disclosure regarding liquidity and availability of resources. This disclosure has been presented for 2019 only, as allowed by ASU No. 2016-14.

New Accounting Pronouncements Not Yet Effective

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). 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 November 2016, FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. The amendments in this update require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. Amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period amounts shown on the combining statement of cash flows. ASU 2016-18 is effective for fiscal years beginning after December 15, 2018 (fiscal year 2020). ASU 2016-18 is to be applied retroactively with transition provisions. The Organization is assessing the impact this standard will have on its financial statements.

HABITAT FOR HUMANITY OF MINNESOTA, INC.

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended June 30, 2019 and 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

In June 2018, FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The new guidance is intended to clarify and improve accounting guidance for contributions received and contributions made. The amendments in this ASU should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. ASU 2018-08 is effective for fiscal years beginning after December 15, 2018 (fiscal year 2020) and is intended to be implemented concurrently with ASU 2014-09. The Organization is assessing the impact this standard will have on its financial statements.

Subsequent Events

The Organization has evaluated subsequent events through October 25, 2019, which is the date that the financial statements were approved and available to be issued.

NOTE 2 - LIQUIDITY AND AVAILABILITY

The following table reflects the Organization's financial assets as of June 30, 2019, reduced by amounts not available for general expenditures within one year. Financial assets are considered unavailable when illiquid or not convertible to cash within one year. Other financial assets excluded from this measure of liquidity include reserves that can only be used for loans to affiliates.

	<u>2019</u>
Cash and cash equivalents	\$ 883,741
Interest receivable	41,252
Loans receivable due in fiscal year 2020	<u>2,483,594</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 3,408,587</u>

As part of the Organization's liquidity management, the Organization structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The Organization's policy on cash operating reserves includes maintaining undesignated cash and short term investment balances at all times equal to a minimum of six months of adjusted estimated operating expenses.

HABITAT FOR HUMANITY OF MINNESOTA, INC.

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended June 30, 2019 and 2018

NOTE 3 - 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.

	2019	2018
Various affiliates, non-interest bearing, lump sum payments due 2019 through 2023	\$ 48,195	\$ 203,403
Various affiliates, 3% interest, monthly payments through November 1, 2021	57,145	160,182
Various affiliates, 1% interest, monthly payments through June 1, 2023	73,802	98,985
Various affiliates through the revolving loan fund, non-interest bearing, monthly payments through February 1, 2044	19,896,493	20,436,823
Various affiliates, 2.25%, 2.5%, 2.6% and 3.0% interest, monthly payments through July 1, 2041	17,429,835	18,235,717
Total loans receivable	37,505,470	39,135,110
Less: Unamortized discount	(7,665,386)	(8,142,773)
Less: Allowance for loan losses	(56,258)	(58,700)
Net Loans Receivable	\$ 29,783,826	\$ 30,933,637

All loans receivable are discounted based on the fair market interest rate at the time the funds are advanced. The fair market rate for 2019 and 2018 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, 2019 and 2018 were 3.58% and 3.44%, respectively. Loans receivable represent 91.2% and 92.9% of total assets as of June 30, 2019 and 2018, respectively.

Maturities of loans receivable based on the face amount of the loans are as follows at June 30, 2019:

Amounts due in fiscal year:	
2020	\$ 2,483,594
2021	2,377,110
2022	2,320,614
2023	2,291,483
2024	2,259,551
Thereafter	25,773,118
Total	\$ 37,505,470

HABITAT FOR HUMANITY OF MINNESOTA, INC.

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended June 30, 2019 and 2018

NOTE 3 - 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, 2019 and 2018, 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, 2019 and 2018, 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, 2019 and 2018, 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>2019</u>	<u>2018</u>
Beginning balance	\$ 58,700	\$ 60,500
Provision for loan losses	<u>(2,442)</u>	<u>(1,800)</u>
Ending balance	<u>\$ 56,258</u>	<u>\$ 58,700</u>

NOTE 4 - PROPERTY AND EQUIPMENT

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

	<u>2019</u>	<u>2018</u>
Furniture and equipment	\$ 29,021	\$ 18,320
Vehicle	7,200	7,200
Less: Accumulated depreciation	<u>(25,419)</u>	<u>(22,696)</u>
Property and equipment, net	<u>\$ 10,802</u>	<u>\$ 2,824</u>

HABITAT FOR HUMANITY OF MINNESOTA, INC.

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2019 and 2018

NOTE 5 - CRV RECOVERABLE GRANTS

The Organization has received eleven 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 \$3,198,500 and \$3,042,700 as of June 30, 2019 and 2018, respectively, of which \$71,735 and \$8,010 remained undisbursed as of June 30, 2019, and June 30, 2018, respectively. During the years ended June 30, 2019 and 2018, the Organization disbursed \$155,800 and \$314,536, respectively, to Owner-Occupants of Qualified Dwelling Units. In 2019, the Organization also received returned grant awards of \$101,675, of which \$29,940 was disbursed. As of June 30, 2019, the undistributed returned grant awards of \$71,735 is shown as both a liability and restricted cash and cash equivalents in the accompanying statements of financial position. In 2018, the Organization received returned grant awards of \$22,950, of which \$14,940 was disbursed. As of June 30, 2018, the undistributed grant awards of \$8,010 plus the undistributed returned grant awards of \$5,396 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 6 - 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, 2019 and 2018 was \$21,157,927. The revolving loan is discounted based on the same discount used when the funds are loaned to affiliates. The unamortized discount at June 30, 2019 and 2018 was \$5,735,230 and \$5,998,720, 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, 2019 and 2018

NOTE 7 - NOTES PAYABLE

Notes payable consisted of the following at June 30:

	2019	2018
Note payable to MHFA, 3%, due in quarterly installments of \$10,834 through July 1, 2018	\$ -	\$ 10,754
Note payable to MHFA, 3%, due in quarterly installments of \$10,834 through February 1, 2019	-	32,022
Note payable to MHFA, 3%, due in quarterly installments of \$10,834 through January 1, 2020	32,022	73,615
Note payable to Wells Fargo Housing Foundation, 1%, due in quarterly installments of \$4,833 through July 1, 2018	-	4,821
Note payable to Wells Fargo Housing Foundation, 1%, due in quarterly installments of \$4,833 through February 1, 2019	-	14,425
Note payable to Wells Fargo Housing Foundation, 1%, due in quarterly installments of \$4,833 through January 1, 2020	14,425	33,492
Note payable to Wells Fargo Housing Foundation, 1%, due in quarterly installments of \$4,833 through October 1, 2020	28,743	47,667
Note payable to Wells Fargo Housing Foundation, 1%, due in quarterly installments of \$4,833 through February 1, 2022	52,369	71,058
Notes payable to GMHF, non-interest bearing, unsecured, balance due in equal payments on January 7, 2019 and March 31, 2020	84,000	168,000
Note payable to MHFA, 5%, unsecured, due in quarterly installments of \$17,574 through January 1, 2041	5,182,805	5,340,489
Note payable to MHFA, 0%, unsecured, due in quarterly installments of \$10,000 through January 1, 2041	4,620,000	4,860,000
Note payable to MHFA, 2%, unsecured, due in quarterly installments of \$127,319 through January 1, 2035	6,068,405	6,468,840
Total notes payable	16,082,769	17,125,183
Less: Unamortized discount	(2,148,289)	(2,441,451)
Net Notes Payable	\$ 13,934,480	\$ 14,683,732

HABITAT FOR HUMANITY OF MINNESOTA, INC.

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended June 30, 2019 and 2018

NOTE 7 - 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, 2019:

Year Ending June 30:	
2020	\$ 980,116
2021	842,074
2022	840,235
2023	843,250
2024	861,330
Thereafter	<u>11,715,764</u>
Total	<u>\$ 16,082,769</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, 2019 and 2018 were based on a 60 basis point spread over 30 year treasury bills, which was 3.58% and 3.44%, respectively.

NOTE 8 - OPERATING LEASE COMMITMENTS

During fiscal 2017, the Organization entered into a long-term operating lease for office space. The original lease, as amended, expires on April 30, 2020. Subsequent to June 30, 2019, an additional amendment to the lease extended the term to April 30, 2021, at which time the lease converts to a month-to-month agreement. The Organization also leases certain office equipment. Total rent expense for all operating leases were approximately \$28,340 and \$33,900 for the years ended June 30, 2019 and 2018, respectively.

Minimum future rental payments under non-cancelable operating leases are approximately:

Year Ending June 30:	
2020	\$ 25,419
2021	<u>21,261</u>
Total	<u>\$ 46,680</u>

HABITAT FOR HUMANITY OF MINNESOTA, INC.

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended June 30, 2019 and 2018

NOTE 9 - CONCENTRATIONS

During the years ended June 30, 2019 and 2018, the Organization received 99% of its financing through one institution, Minnesota Housing Finance Agency. The Organization is current on all notes payable.

As of June 30, 2019 and 2018, approximately 64% and 65%, respectively, of the loans outstanding were to the Twin Cities Habitat for Humanity affiliate. Total loans issued to Twin Cities Habitat for the years ended June 30, 2019 and 2018 were \$0 and \$480,349.

NOTE 10 - RELATED PARTIES

Twin Cities Habitat for Humanity (TC-HFH) administers the Organization's payroll and employee benefit plans. At June 30, 2019 and 2018, the Organization owed TC-HFH \$21,226 and \$52,782, 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.

NOTE 11 - 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 \$5,638 and \$6,147 for the years ended June 30, 2019 and 2018, respectively.