

**TWIN CITIES HABITAT FOR HUMANITY, INC.**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2014 AND 2013**

**TWIN CITIES HABITAT FOR HUMANITY, INC.  
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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Twin Cities Habitat for Humanity, Inc.  
Minneapolis, Minnesota

### **Report on the Financial Statements**

We have audited the accompanying consolidated financial statements of Twin Cities Habitat for Humanity, Inc., which comprise the consolidated balance sheets as of June 30, 2014 and 2013, and the related consolidated statements of activities, cash flows, and functional expenses for the years then ended, and the related notes to the consolidated financial statements.

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

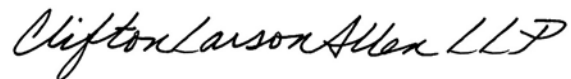
### ***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Twin Cities Habitat for Humanity, Inc. as of June 30, 2014 and 2013, 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.

Board of Directors  
Twin Cities Habitat for Humanity, Inc.

### **Report on Supplementary Information**

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating balance sheet and consolidating statement of activities are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.



**CliftonLarsonAllen LLP**

Minneapolis, Minnesota  
November 11, 2014

**TWIN CITIES HABITAT FOR HUMANITY, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
**JUNE 30, 2014 AND 2013**

	2014	2013
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 7,255,833	\$ 3,765,843
Certificate of Deposit	235,146	233,639
Accounts Receivable	408,871	532,544
Contributions Receivable, Net	1,604,258	3,474,702
Inventory	5,792,949	6,727,740
Prepaid Expenses	688,543	521,738
Property and Equipment, Net	9,694,896	3,855,978
Funds Held in Escrow	-	7,065,069
Leveraged Loans Receivable	6,466,900	6,466,900
Mortgages Receivable:		
Mortgages Receivable at Face Value	67,318,056	64,154,889
Less: Unamortized Discount	(27,199,968)	(26,358,674)
Mortgages Receivable, Net	40,118,088	37,796,215
 Total Assets	 \$ 72,265,484	 \$ 70,440,368
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts Payable	\$ 361,081	\$ 881,106
Accrued Expenses	608,303	618,880
Affiliate Payable	-	23,421
Line of Credit	450,000	750,000
Long-Term Notes Payable:		
Long-Term Notes Payable at Face Value	44,218,542	43,849,683
Less: Unamortized Discount	(6,518,788)	(6,666,951)
Long-Term Notes Payable, Net	37,699,754	37,182,732
 Total Liabilities	 39,119,138	 39,456,139
<b>NET ASSETS</b>		
Unrestricted	29,742,249	23,985,382
Temporarily Restricted	2,738,734	6,333,484
Permanently Restricted	665,363	665,363
Total Net Assets	33,146,346	30,984,229
 Total Liabilities and Net Assets	 \$ 72,265,484	 \$ 70,440,368

See accompanying Notes to Consolidated Financial Statements.

**TWIN CITIES HABITAT FOR HUMANITY, INC.  
CONSOLIDATED STATEMENTS OF ACTIVITIES  
YEARS ENDED JUNE 30, 2014 AND 2013**

	2014			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>OPERATING REVENUE AND SUPPORT</b>				
Operating Revenue:				
Home Sales (Mortgages Received)	\$ 6,942,128	\$ -	\$ -	\$ 6,942,128
Interest Income	161,350	676	-	162,026
ReStore Sales (Net of Direct Expense of \$529,095 and \$519,750, Respectively)	188,050	-	-	188,050
Gain (Loss) on Disposal of Assets	469,665	-	-	469,665
Other	126,948	-	-	126,948
Total Operating Revenue	<u>7,888,141</u>	<u>676</u>	<u>-</u>	<u>7,888,817</u>
Support:				
Foundations	7,586	90,000	-	97,586
Corporations	1,934,645	851,265	-	2,785,910
Religious Organizations	366,812	85,608	-	452,420
Individuals	2,513,245	295,549	-	2,808,794
Public Sector Funds	3,129,912	160,308	-	3,290,220
In-Kind	3,009,141	-	-	3,009,141
Special Events (Net of Direct Expense of \$295,609 and \$248,876, Respectively)	519,953	-	-	519,953
Total Support	<u>11,481,294</u>	<u>1,482,730</u>	<u>-</u>	<u>12,964,024</u>
Net Assets Released from Restrictions	<u>1,794,329</u>	<u>(1,794,329)</u>	<u>-</u>	<u>-</u>
Total Operating Revenue and Support	21,163,764	(310,923)	-	20,852,841
<b>OPERATING EXPENSES</b>				
Program Services	16,495,100	-	-	16,495,100
Management and General	564,449	-	-	564,449
Fundraising	1,607,325	-	-	1,607,325
Total Operating Expenses	<u>18,666,874</u>	<u>-</u>	<u>-</u>	<u>18,666,874</u>
<b>OPERATING INCREASE (DECREASE) IN NET ASSETS</b>				
	2,496,890	(310,923)	-	2,185,967
<b>NONOPERATING ACTIVITIES</b>				
Contribution of Below Market Interest Rate Debt	537,473	-	-	537,473
Home Sales Mortgage Discount	(3,056,407)	-	-	(3,056,407)
Amortization of Discount on Mortgages	2,215,113	-	-	2,215,113
Amortization of Discount on Long-Term Notes Payable	(738,852)	-	-	(738,852)
Equity Investment in TCHFH St. Paul HQ, LLC	-	-	-	-
Contributions for Capital Purposes	1,018,823	-	-	1,018,823
Net Assets Released from Restrictions - Capital	<u>3,283,827</u>	<u>(3,283,827)</u>	<u>-</u>	<u>-</u>
<b>NONOPERATING INCREASE (DECREASE) IN NET ASSETS</b>				
	<u>3,259,977</u>	<u>(3,283,827)</u>	<u>-</u>	<u>(23,850)</u>
<b>TOTAL INCREASE (DECREASE) IN NET ASSETS</b>				
	5,756,867	(3,594,750)	-	2,162,117
Net Assets - Beginning of Year	<u>23,985,382</u>	<u>6,333,484</u>	<u>665,363</u>	<u>30,984,229</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 29,742,249</u>	<u>\$ 2,738,734</u>	<u>\$ 665,363</u>	<u>\$ 33,146,346</u>

See accompanying Notes to Consolidated Financial Statements.

## 2013

Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 7,065,446	\$ -	\$ -	\$ 7,065,446
23,797	1,344	-	25,141
64,386	-	-	64,386
(10,246)	-	-	(10,246)
85,121	-	-	85,121
<u>7,228,504</u>	<u>1,344</u>	<u>-</u>	<u>7,229,848</u>
-	834,000	-	834,000
3,288,977	728,139	-	4,017,116
414,770	60,000	-	474,770
2,290,823	1,615,223	-	3,906,046
3,184,066	21,949	-	3,206,015
2,756,377	-	-	2,756,377
437,734	-	-	437,734
<u>12,372,747</u>	<u>3,259,311</u>	<u>-</u>	<u>15,632,058</u>
<u>2,182,235</u>	<u>(2,182,235)</u>	<u>-</u>	<u>-</u>
21,783,486	1,078,420	-	22,861,906
17,301,801	-	-	17,301,801
454,136	-	-	454,136
1,480,599	-	-	1,480,599
<u>19,236,536</u>	<u>-</u>	<u>-</u>	<u>19,236,536</u>
2,546,950	1,078,420	-	3,625,370
464,021	-	-	464,021
(2,809,157)	-	-	(2,809,157)
2,157,926	-	-	2,157,926
(715,508)	-	-	(715,508)
18,907	-	-	18,907
-	-	-	-
-	-	-	-
<u>(883,811)</u>	<u>-</u>	<u>-</u>	<u>(883,811)</u>
1,663,139	1,078,420	-	2,741,559
<u>22,322,243</u>	<u>5,255,064</u>	<u>665,363</u>	<u>28,242,670</u>
<u>\$ 23,985,382</u>	<u>\$ 6,333,484</u>	<u>\$ 665,363</u>	<u>\$ 30,984,229</u>

**TWIN CITIES HABITAT FOR HUMANITY, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2014 AND 2013**

	2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Increase in Net Assets	\$ 2,162,117	\$ 2,741,559
Adjustments to Reconcile Increase in Net Assets to Net Cash Used by Operating Activities:		
Depreciation	305,417	179,209
In-Kind Contributions	(3,096,387)	(2,815,208)
Forgiveness of Debt	(1,275,772)	(1,299,220)
Discounts on Mortgages Related to Current-Year Home Sales	3,056,407	2,809,157
Discounts on Current-Year Borrowings Under Long-Term Notes Payable	(537,473)	(464,021)
Amortization of Discounts on Mortgages Receivable	(2,215,113)	(2,157,926)
Amortization of Discount on Long-Term Notes Payable	738,852	715,508
Unrealized Gain on Certificate of Deposit	(1,507)	(3,474)
(Gain) Loss on Disposal of Property and Equipment	(469,665)	10,246
Changes in Operating Assets and Liabilities:		
Accounts Receivable	123,673	(149,180)
Contributions Receivable, Net	1,870,444	656,577
Inventory	(3,634,335)	(4,130,522)
Prepaid Expenses	(220,021)	(43,238)
Accounts Payable	(520,025)	96,198
Accrued Expenses	(10,577)	(106,772)
Affiliate Payable	(23,421)	(7,556)
Net Cash Used by Operating Activities	(3,747,386)	(3,968,663)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Collections on Mortgages Receivable	3,935,763	3,349,096
Leveraged Loans Issued	-	(6,466,900)
Proceeds from the Sale of Property and Equipment	1,218,207	-
Purchases of Property and Equipment	(6,326,294)	(1,538,121)
Net Cash Used by Investing Activities	(1,172,324)	(4,655,925)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Borrowings on Line of Credit	-	2,100,000
Payments on Line of Credit	(300,000)	(1,850,000)
Borrowings on Short-Term Day Loan	-	1,911,605
Payments on Short-Term Day Loan	-	(1,911,605)
Deposits to Funds Held in Escrow	-	(9,498,144)
Withdrawals from Funds Held in Escrow	7,065,069	2,433,075
Required Payments on Long-Term Notes Payable	(1,698,933)	(1,456,045)
Additional Payments on Long-Term Notes Payable	(549,042)	-
Borrowings on Long-Term Notes Payable	3,892,606	17,620,019
Net Cash Provided by Financing Activities	8,409,700	9,348,905
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	3,489,990	724,317
Cash and Cash Equivalents - Beginning	3,765,843	3,041,526
<b>CASH AND CASH EQUIVALENTS - ENDING</b>	\$ 7,255,833	\$ 3,765,843
<b>SUPPLEMENTARY CASH FLOW INFORMATION</b>		
Interest Paid	\$ 737,760	\$ 507,349
<b>NONCASH ITEMS</b>		
Inventory and Equipment Contributed by Donors	\$ 3,009,141	\$ 2,756,377
Mortgages Received in Exchange for Homes Sold	\$ 7,098,930	\$ 7,000,289
Contributions and Pledge Payments of Investment Securities	\$ 178,984	\$ 96,159

See accompanying Notes to Consolidated Financial Statements.



**TWIN CITIES HABITAT FOR HUMANITY, INC.**  
**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED JUNE 30, 2014**

	2014								
	Program Services					Support Services			Total All Services
	Creating Local and International Homeownership	Financing Homeownership	Preserving Homeownership	Community Engagement	Total Program Services	Management and General	Fundraising	Total Support Services	
Cost of Production - Cash	\$ 7,519,112	\$ 30,776	\$ 215,559	\$ 8,262	\$ 7,773,709	\$ -	\$ -	\$ -	\$ 7,773,709
Cost of Production - In-Kind	1,222,960	-	174,940	9,207	1,407,107	-	-	-	1,407,107
Salaries, Taxes, and Benefits	3,053,580	198,142	620,673	742,281	4,614,676	364,738	1,020,028	1,384,766	5,999,442
Professional Fees	61,189	23,330	21,079	63,368	168,966	56,888	166,309	223,197	392,163
Printing and Media	2,148	1,409	3,674	35,847	43,078	662	152,859	153,521	196,599
Postage	13,199	753	2,297	7,103	23,352	1,963	32,120	34,083	57,435
Insurance	106,296	5,115	17,692	9,778	138,881	15,560	23,633	39,193	178,074
Telephone	48,132	845	8,587	2,817	60,381	2,546	4,177	6,723	67,104
Occupancy	228,578	3,041	41,676	9,904	283,199	9,251	17,152	26,403	309,602
Vehicle Fleet	73,724	1,102	9,017	7,848	91,691	3,351	6,392	9,743	101,434
General Supplies, Tools and Site Supplies	438,818	4,610	14,066	34,667	492,161	10,488	33,565	44,053	536,214
Equipment Lease and Maintenance	16,563	378	1,486	2,134	20,561	1,383	2,899	4,282	24,843
Warranty	2,169	-	-	-	2,169	-	-	-	2,169
Meals and Travel	34,857	3,864	6,951	30,018	75,690	8,438	41,868	50,306	125,996
Staff Development	29,589	1,536	7,705	15,561	54,391	11,105	8,216	19,321	73,712
Habitat International Building Fees	-	-	-	-	-	-	-	-	-
Tithe for International Homes	175,000	-	-	-	175,000	-	-	-	175,000
Property Taxes	379	10	45	57	491	32	57	89	580
Loan Servicing and Bank Fees	2,931	105,033	2,982	7,489	118,435	12,628	25,447	38,075	156,510
Miscellaneous	-	273	1,760	142	2,175	1,299	314	1,613	3,788
Discount Amortization and Interest Expense	130,124	1,264,862	21,658	11,971	1,428,615	19,048	28,930	47,978	1,476,593
Bad Debt Expense	15,313	737	2,549	1,409	20,008	18,822	3,405	22,227	42,235
Depreciation	183,786	8,629	29,932	16,869	239,216	26,247	39,954	66,201	305,417
Total	<u>\$ 13,358,447</u>	<u>\$ 1,654,445</u>	<u>\$ 1,204,328</u>	<u>\$ 1,016,732</u>	<u>\$ 17,233,952</u>	<u>\$ 564,449</u>	<u>\$ 1,607,325</u>	<u>\$ 2,171,774</u>	<u>\$ 19,405,726</u>
Operating	\$ 13,358,447	\$ 915,593	\$ 1,204,328	\$ 1,016,732	\$ 16,495,100	\$ 564,449	\$ 1,607,325	\$ 2,171,774	\$ 18,666,874
Nonoperating	-	738,852	-	-	738,852	-	-	-	738,852
Total	<u>\$ 13,358,447</u>	<u>\$ 1,654,445</u>	<u>\$ 1,204,328</u>	<u>\$ 1,016,732</u>	<u>\$ 17,233,952</u>	<u>\$ 564,449</u>	<u>\$ 1,607,325</u>	<u>\$ 2,171,774</u>	<u>\$ 19,405,726</u>
Percentage	<u>68.84%</u>	<u>8.53%</u>	<u>6.21%</u>	<u>5.24%</u>	<u>88.81%</u>	<u>2.91%</u>	<u>8.28%</u>	<u>11.19%</u>	<u>100.00%</u>

See accompanying Notes to Consolidated Financial Statements.

**TWIN CITIES HABITAT FOR HUMANITY, INC.**  
**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED JUNE 30, 2013**

	2013								
	Program Services				Support Services				
	Creating Local and International Homeownership	Financing Homeownership	Preserving Homeownership	Community Engagement	Total Program Services	Management and General	Fundraising	Total Support Services	Total All All Services
Cost of Production - Cash	\$ 8,105,178	\$ -	\$ 222,553	\$ -	\$ 8,327,731	\$ -	\$ -	\$ -	\$ 8,327,731
Cost of Production - In-Kind	1,412,913	-	121,460	-	1,534,373	-	-	-	1,534,373
Salaries, Taxes, and Benefits	2,897,398	179,890	764,392	1,141,350	4,983,030	299,537	1,036,247	1,335,784	6,318,814
Professional Fees	80,321	99,418	57,120	70,200	307,059	80,216	131,679	211,895	518,954
Printing and Media	4,327	3,386	6,850	30,125	44,688	-	120,304	120,304	164,992
Postage	8,749	709	1,937	8,768	20,163	1,380	29,695	31,075	51,238
Insurance	68,037	3,727	14,782	28,468	115,014	10,542	15,748	26,290	141,304
Telephone	44,716	787	10,070	9,566	65,139	2,191	3,653	5,844	70,983
Occupancy	179,035	1,264	34,561	22,008	236,868	2,389	3,917	6,306	243,174
Vehicle Fleet	52,517	1,714	14,913	37,565	106,709	4,847	7,242	12,089	118,798
General Supplies, Tools and Site Supplies	402,131	6,874	15,841	62,642	487,488	5,334	26,822	32,156	519,644
Equipment Lease and Maintenance	16,931	728	2,993	6,093	26,745	2,058	4,415	6,473	33,218
Warranty	5,473	-	-	-	5,473	-	-	-	5,473
Meals and Travel	35,691	4,121	7,394	32,658	79,864	4,533	37,170	41,703	121,567
Staff Development	13,359	5,388	12,981	24,217	55,945	10,187	11,101	21,288	77,233
Habitat International Building Fees	-	-	-	-	-	-	-	-	-
Tithe for International Homes	224,593	-	-	-	224,593	-	-	-	224,593
Property Taxes	1,050	10	209	2,809	4,078	27	41	68	4,146
Loan Servicing and Bank Fees	1,677	59,206	1,543	4,667	67,093	6,944	16,020	22,964	90,057
Miscellaneous	-	-	-	-	-	688	1,722	2,410	2,410
Discount Amortization and Interest Expense	-	1,194,080	-	-	1,194,080	11,511	17,266	28,777	1,222,857
Bad Debt Expense	-	-	-	-	-	-	-	-	-
Depreciation	76,935	4,155	16,589	33,497	131,176	11,752	17,557	29,309	160,485
Total	<u>\$ 13,631,031</u>	<u>\$ 1,565,457</u>	<u>\$ 1,306,188</u>	<u>\$ 1,514,633</u>	<u>\$ 18,017,309</u>	<u>\$ 454,136</u>	<u>\$ 1,480,599</u>	<u>\$ 1,934,735</u>	<u>\$ 19,952,044</u>
Operating	\$ 13,631,031	\$ 849,949	\$ 1,306,188	\$ 1,514,633	\$ 17,301,801	\$ 454,136	\$ 1,480,599	\$ 1,934,735	\$ 19,236,536
Nonoperating	-	715,508	-	-	715,508	-	-	-	715,508
Total	<u>\$ 13,631,031</u>	<u>\$ 1,565,457</u>	<u>\$ 1,306,188</u>	<u>\$ 1,514,633</u>	<u>\$ 18,017,309</u>	<u>\$ 454,136</u>	<u>\$ 1,480,599</u>	<u>\$ 1,934,735</u>	<u>\$ 19,952,044</u>
Percentage	<u>68.32%</u>	<u>7.85%</u>	<u>6.55%</u>	<u>7.59%</u>	<u>90.30%</u>	<u>2.28%</u>	<u>7.42%</u>	<u>9.70%</u>	<u>100.00%</u>

See accompanying Notes to Consolidated Financial Statements.

**TWIN CITIES HABITAT FOR HUMANITY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2014 AND 2013**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organizational Purpose**

Twin Cities Habitat for Humanity, Inc. is a Minnesota nonprofit corporation, incorporated in 1985. The mission of Twin Cities Habitat for Humanity (TCHFH or the Organization) is to eliminate poverty housing from the Twin Cities and to make decent, affordable shelter for all people a matter of conscience. TCHFH fulfills its mission through four major program initiatives which address homeownership needs in the community while engaging the community in the issues of affordable homeownership.

Creating affordable homeownership is the primary program. TCHFH builds or renovates homes utilizing volunteer labor, donated materials and contributed funds. The homes are then sold to pre-qualified, low-income families. Homebuyers are selected based on need, ability to repay the TCHFH mortgage, and willingness to partner. The Organization also tithes a portion of its general donations to Habitat for Humanity International to improve the housing conditions for people living in poverty around the world.

Long-term mortgage financing is a key component which makes Habitat homes affordable. Homes sold to local low-income buyers are 100% financed by TCHFH. Homebuyers are provided an affordable 0% interest, 20 to 30 year mortgage. Monthly mortgage payments collected by TCHFH are added to the donation resources used for building additional homes for families in need.

Preserving homeownership includes two activities which allow existing homeowners in the community to remain in their home. "A Brush with Kindness" offers painting and critical remodeling services throughout the metropolitan area, serving low-income, elderly, or disabled homeowners seeking to stay in an affordable home. Volunteers provide these services and materials are received in-kind. In circumstances where repairs are more extensive, homeowners take out a loan through Federal Home Loan Bank sources. "Mortgage Foreclosure Prevention Program" is a contract service for any City of Minneapolis resident in need of foreclosure prevention counseling or intervention.

Community engagement is a program initiative which runs throughout the activities of the Organization. These initiatives include soliciting and coordinating volunteers, educating the public about affordable housing, advocating for housing issues, community outreach and initiatives to serve veterans.

**Basis of Consolidation**

The consolidated financial statements include the activities of Twin Cities Habitat for Humanity – Community Housing Development Organization, Inc (the CHDO) and Twin Cities Habitat for Humanity St. Paul HQ, LLC (the TCHFH St. Paul HQ, LLC). Twin Cities Habitat for Humanity, Inc. controls the CHDO's Board of Directors and economic interest exists between the entities. TCHFH controls and has a 95% ownership interest in TCHFH St. Paul HQ, LLC. The remaining 5% interest in TCHFH St. Paul HQ, LLC is owned by another nonprofit affordable housing organization.

All intercompany transactions and accounts have been eliminated in the consolidated financial statements.

**TWIN CITIES HABITAT FOR HUMANITY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2014 AND 2013**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Consolidated Financial Statement Presentation**

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

Unrestricted – Resources over which the board of directors has discretionary control.

Temporarily Restricted – Those resources subject to donor imposed restrictions which will be satisfied by actions of the Organization or passage of time.

Permanently Restricted – Those resources subject to a donor imposed restriction that they be maintained permanently by the Organization.

The Organization has elected to present temporarily restricted contributions, which are fulfilled in the same time period, within the unrestricted net asset class.

Non-operating activities include all noncash activities relating to discounting mortgages receivable and debt, gain (loss) on disposal of assets, contributions and releases related to capital purposes.

**Cash and Cash Equivalents**

The Organization considers all highly liquid investments purchased with an initial maturity of three months or less to be cash and cash equivalents. At times, amounts may exceed FDIC insured limits.

As of June 30, 2014 and 2013, the Organization has \$-0- and \$441,663, respectively, of restricted cash and cash equivalents. The restricted cash and cash equivalents consists of a collection account for TCHFH St. Paul HQ, LLC capital campaign pledge proceeds that are required to be deposited into a separate account as security for one of the long-term notes payable obligations.

**Certificate of Deposit**

Certificates of deposit are recorded at cost which approximates market.

**Accounts Receivable**

Accounts receivable are recorded at net realizable value. The Organization accounts for doubtful accounts receivable by the reserve method, based on management's best estimate and past history. All accounts receivable are due on demand. Receivables are assessed individually for collectability based on the surrounding facts and circumstances and management's past history. When all collection efforts have been exhausted, the accounts are written off against the related allowance. As of June 30, 2014 and 2013, no allowance for doubtful accounts was necessary for accounts receivable.

**Leveraged Loans Receivable**

Leveraged loans receivable consist of Leveraged Loans A and B, which are part of the new market tax credit transaction involving TCHFH St. Paul HQ, LLC.

**TWIN CITIES HABITAT FOR HUMANITY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2014 AND 2013**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Mortgages Receivable**

Mortgage notes receivable entered into at rates substantially below market rates are discounted to net present value. The discounts are charged directly to operations at the inception of the mortgage and amortized over the life of the contract. Discount amortization is reported as amortization of discount on mortgages on the consolidated statements of activities in the period amortized.

**Allowance for Credit Losses**

The Organization's allowance for credit losses is that amount considered adequate to absorb probable losses based on management's evaluations of the size and current risk characteristics of the loan and mortgage portfolios. Such evaluations consider historical information and experience with clients. Specific allowances for credit losses are established for large impaired notes on an individual basis. A note is considered impaired when, based on current information and events, it is probable that the Organization will be unable to collect the scheduled payments when due according to the contractual terms of the promissory note. The specific allowances established for these loans are based on a thorough analysis of the most probable source of repayment, including the estimated fair value of the underlying collateral.

At June 30, 2014, the Organization has individually evaluated mortgage notes for impairment. Management believes all mortgages receivable are realizable through either collection or foreclosure proceeds if not collected, with the exception of one program. Due to current market conditions and credit quality, one mortgage program recorded an allowance for doubtful accounts of \$75,878 as of June 30, 2014 and 2013.

At June 30, 2014, the Organization has individually evaluated leveraged loans receivable for impairment and no allowance is deemed necessary.

**Contributions Receivable**

Contributions receivable are recorded at net realizable value. Conditional pledges are not included as support until such time as the conditions are substantially met. Receivables are assessed individually for collectability based on the surrounding facts and circumstances and management's past history. When all collection efforts have been exhausted, the accounts are written off against the related allowance. As of June 30, 2014 and 2013, the allowance for doubtful accounts was \$41,330 and \$-0-, respectively.

**Inventory**

Inventories are valued at cost based on a specific identification method. In-kind inventory is recorded at its estimated market value when received. Inventory for homeownership is expensed to cost of production sold at time of sale to homeowners.

**Funds Held in Escrow**

Funds held in escrow represent unspent loan proceeds held by the Organization and used for the TCHFH St. Paul HQ, LLC building project funded by the new market tax credit transaction.

**TWIN CITIES HABITAT FOR HUMANITY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2014 AND 2013**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Property and Equipment**

Property and equipment purchased are stated at cost. The Organization capitalizes items over \$1,000. Contributed items are recorded at fair market value at date of donation. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulation, contributions of property and equipment are recorded as unrestricted. Depreciation of property and equipment is computed on a straight-line basis over the estimated useful lives of the assets.

**Affiliate Payable**

The Organization disburses a voluntary approved tithe to Habitat for Humanity International.

**In-Kind Contributions**

In-kind contributions consist of donated land, homes, materials, and specialized labor. Donated land is valued using independent appraisals, or if unavailable, comparative market analysis or the tax appraisal values. Donated materials and specialized labor are valued at market value on the date of donation.

**Home Sales**

Sales to homeowners are 100% financed by TCHFH and are recorded when title is transferred, at the first mortgage amount classified as operating revenues, and the related discount is recorded at the same time as a non-operating activity. Noninterest-bearing mortgages have been discounted based upon prevailing market rates for low-income housing at the inception of the mortgages. Utilizing the effective interest method, this discount will be recognized as income over the term of the mortgage.

**Public Sector Funds**

Grants are either recorded as contributions or exchange transactions based on criteria contained in the grant award.

Grant Awards that are Contributions – Grants that qualify as contributions are recorded as invoiced to the funding sources. Revenue is recognized in the accounting period when the related allowable expenses or asset acquisition costs are incurred.

Grant Awards that are Exchange Transactions – Exchange transactions are recognized as revenue as they are earned and expenses as they are incurred.

**TWIN CITIES HABITAT FOR HUMANITY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2014 AND 2013**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Income Taxes**

The Organization and the CHDO have exempt status relative to federal and Minnesota corporate income taxes under Internal Revenue Code Section 501(c)(3) and applicable state statutes. The Organization and the CHDO are not private foundations and contributions to the Organization qualify as a charitable tax deduction by the contributor. TCHFH St. Paul HQ, LLC is a 95% owned LLC of Twin Cities Habitat for Humanity, Inc. with the remaining 5% owned by another nonprofit affordable housing organization, and subject to a member control agreement. TCHFH St. Paul HQ, LLC will file a Form 1065.

The Organization follows the accounting standards for contingencies in evaluating uncertain tax positions. This guidance prescribes recognition threshold principles for the consolidated 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 as a result of the implementation of this standard. The Organization's returns are subject to review and examination by federal and state authorities. The Organization's tax returns are open to examinations for the years ending June 30, 2011 through 2013.

**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 the best estimates of management.

**Estimates**

Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

**Reclassifications**

Certain amounts appearing in the 2013 financial statements have been reclassified to conform to 2014 presentation. These reclassifications have no effect on reported amounts of total net assets or change in total net assets.

**Subsequent Events**

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through November 11, 2014, the date the financial statements were available to be issued.

**TWIN CITIES HABITAT FOR HUMANITY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2014 AND 2013**

**NOTE 2 CONTRIBUTIONS RECEIVABLE**

The present value of the contributions receivable were summarized as follows at June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Gross Contributions Receivable	\$ 1,702,377	\$ 3,651,603
Less: Allowance for Doubtful Accounts	(41,330)	-
Less: Present Value Discount - 5%	(56,789)	(176,901)
Net Contributions Receivable	<u>\$ 1,604,258</u>	<u>\$ 3,474,702</u>
Amounts Due in:		
Less Than One Year	\$ 1,196,454	\$ 2,161,567
One to Five Years	407,804	1,313,135
Total	<u>\$ 1,604,258</u>	<u>\$ 3,474,702</u>

At June 30, 2013, three contributors comprised 25% of the contributions receivable, and at June 30, 2014, one contributor comprised 16% of the contributions receivable.

**NOTE 3 INVENTORY**

Inventory consists of the following at June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Homes in Progress	\$ 2,166,239	\$ 2,743,096
Land and Acquired Property	2,969,026	3,350,572
Building Material	494,996	437,989
Held for Resale	162,688	196,083
Total Inventory	<u>\$ 5,792,949</u>	<u>\$ 6,727,740</u>



**TWIN CITIES HABITAT FOR HUMANITY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2014 AND 2013**

**NOTE 4 PROPERTY AND EQUIPMENT**

A summary of the property and equipment costs and related accumulated depreciation at June 30, 2014 and 2013 are as follows:

	2014		
	Cost	Accumulated Depreciation	Life
Land	\$ 1,198,825	\$ -	N/A
Construction in Progress	-	-	N/A
Buildings and Improvements	7,465,201	259,048	5 - 39 Years
Furniture and Equipment	1,891,380	715,927	5 - 7 Years
Vehicles	446,578	332,113	3 - 5 Years
	<u>\$ 11,001,984</u>	<u>\$ 1,307,088</u>	
Property and Equipment, Net		<u>\$ 9,694,896</u>	
	2013		
	Cost	Accumulated Depreciation	Life
Land	\$ 1,165,736	\$ -	N/A
Construction in Progress	1,609,607	-	N/A
Buildings and Improvements	1,785,711	934,277	5 - 31.5 Years
Furniture and Equipment	915,111	779,237	5 - 7 Years
Vehicles	402,501	309,174	3 - 5 Years
	<u>\$ 5,878,666</u>	<u>\$ 2,022,688</u>	
Property and Equipment, Net		<u>\$ 3,855,978</u>	

During 2013, the cost of the land acquisition and site preparation for the new headquarters is included in land and construction in progress. During 2013, the Organization furthered the construction on the new headquarters which is included in construction in progress at June 30, 2013. The new headquarters was placed into service February 24, 2014.

On November 6, 2013, the Organization entered into a purchase agreement to sell their existing headquarters building in Minneapolis, MN. The sale was finalized on April 3, 2014. A gain on disposal was recognized in the amount of \$469,665.

**TWIN CITIES HABITAT FOR HUMANITY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2014 AND 2013**

**NOTE 5 LEVERAGED LOANS RECEIVABLE**

At June 30, 2014 and 2013, the composition of leveraged loans receivable was as follows:

<u>Description</u>	<u>2014</u>	<u>2013</u>
Leveraged Loan A, 2.4316%, Due in interest-only installments with principal due on April 16, 2020.	\$ 3,700,000	\$ 3,700,000
Leveraged Loan B, 2.4316%, Due in interest-only installments through April 16, 2020, Commencing May 1, 2020 due in monthly installments of \$13,098 with principal due on April 16, 2043.	<u>2,766,900</u>	<u>2,766,900</u>
Total	<u>\$ 6,466,900</u>	<u>\$ 6,466,900</u>

The loans are secured by substantially all assets of the borrower. As of June 30, 2014, the Organization has not reserved any allowance for losses on the leveraged loans receivable, as these loans are being collected consistent with their payment terms.

**NOTE 6 MORTGAGES RECEIVABLE**

A home is considered sold when a formal closing transaction has been finalized. Homes are sold at fair market value based on an appraisal of the property. Contract periods span 20 to 30 years, and monthly payments are no greater than 30% of the family's income at the time of sale. At June 30, 2014 and 2013, the Organization had 815 and 773 mortgages outstanding, respectively.

The mortgage loans receivable are noninterest-bearing mortgages. When the first mortgage on each home is less than the market value, the Organization also obtains a second mortgage for the difference between the first mortgage and market value. The second mortgage, which is forgiven at the end of the first mortgage term, is assumed to have no economic value and, accordingly, is not recognized in the Organization's financial statements. At June 30, 2014 and 2013, the composition of mortgages receivable is as follows:

	<u>2014</u>	<u>2013</u>
Mortgages Receivable	\$ 67,318,056	\$ 64,154,889
Less: Unamortized Discount	(27,124,090)	(26,282,796)
Less: Allowance for Credit Losses	<u>(75,878)</u>	<u>(75,878)</u>
Total	<u>\$ 40,118,088</u>	<u>\$ 37,796,215</u>

The first mortgages receivable have been discounted in order to reflect their economic value. The interest rates used to determine the discount range from 3.74% to 10.0% based on prevailing market rates in the year the mortgage originated. These original discounts and related amortization are reflected as a non-operating activity in the consolidated statement of activities.

**TWIN CITIES HABITAT FOR HUMANITY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2014 AND 2013**

**NOTE 6 MORTGAGES RECEIVABLE (CONTINUED)**

The allowance for credit losses and recorded investment in loans is as follows:

	<u>2014</u>	<u>2013</u>
<b>Allowance for Credit Losses:</b>		
Balance at Beginning of the Year	\$ 75,878	\$ 75,878
Provision for Loan Losses	-	-
Loans Charged-Off	-	-
Recoveries on Sales of Loans	-	-
Balance at End of Year	<u>\$ 75,878</u>	<u>\$ 75,878</u>

The following tables show an aging analysis of the loan portfolio by time past due:

June 30, 2014				
	<u>Current</u>	<u>30-89 Days Past Due</u>	<u>90 Days or More Past Due</u>	<u>Total</u>
Mortgages Receivable	\$ 64,296,320	\$ 1,454,407	\$ 1,567,329	\$ 67,318,056

June 30, 2013				
	<u>Current</u>	<u>30-89 Days Past Due</u>	<u>90 Days or More Past Due</u>	<u>Total</u>
Mortgages Receivable	\$ 61,072,336	\$ 1,051,164	\$ 2,031,389	\$ 64,154,889

**TWIN CITIES HABITAT FOR HUMANITY, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

**NOTE 7 LONG-TERM NOTES PAYABLE**

Long-term notes payable consists of the following as of June 30, 2014 and 2013:

<u>Description</u>	<u>2014</u>	<u>2013</u>
<i>Interest-Bearing Notes:</i>		
Notes Payable, 3%, Secured by Specifically Identified Mortgages Receivable, Due in Monthly Installments of \$10,335 with Maturity Dates from March 1, 2018 to December 1, 2019 (a)	\$ 516,532	\$ 620,975
Note Payable, 1%, Secured by Specifically Identified Mortgages Receivable, Due in Monthly Installments of \$1,738 through March 1, 2022 (a)	155,497	174,698
Note Payable, 2.6%, Secured by Specifically Identified Mortgages Receivable Due, in Monthly Installments of \$63,953 through April 1, 2038 (a)	13,451,496	12,186,504
Note Payable, 4.25%, Secured by Specific Mortgages Receivable, Due in Monthly Installments of \$7,683 through May 18, 2023	694,065	-
Note Payable, 2.99%, Secured by Specifically Identified Mortgages Receivable, Due in Monthly Installments of \$4,491 through February 1, 2019	234,239	-
Note Payable, 3%, Interest Forgiven through April 1, 2011, Unsecured, Due in Quarterly Interest-Only Installments of \$6,000 with Principal Balance Due in Full on December 27, 2017	800,000	800,000
Note Payable, 4.8%, Secured by Specific Mortgages Receivable, Due in Quarterly Installments of \$9,665 through June 30, 2018	93,559	118,575
Note Payable, 3.75%, Secured by specifically identified mortgages receivable, Due in monthly installments of \$7,505 through May 1, 2021	547,224	614,244
Note Payable, 2%, Unsecured, Due in quarterly interest-only installments of \$5,000 with principal balance due on October 1, 2015	1,000,000	1,000,000
Note Payable, 4%, Unsecured, Due in monthly installments of \$7,593 with principal balance due on May 18, 2022	627,797	691,267

**TWIN CITIES HABITAT FOR HUMANITY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2014 AND 2013**

**NOTE 7 LONG-TERM NOTES PAYABLE (CONTINUED)**

<u>Description</u>	<u>2014</u>	<u>2013</u>
<i>Interest-Bearing Notes (Continued):</i>		
Pledge Loan Payable, 3.13% plus 1 month LIBOR, Secured by a restricted cash collection account and TCHFH St. Paul HQ, LLC capital campaign pledges, Interest due monthly. This loan payable was paid in full in August 2013	-	549,042
Note Payable, 4.25%, Secured by notes receivable of \$3,700,000 and \$2,766,900, TCHFH St. Paul HQ, LLC capital campaign pledges and related restricted cash collection account, Due in interest-only installments with principal due on April 16, 2020	3,700,000	3,700,000
<i>Subtotal - Interest-Bearing Notes</i>	<u>21,820,409</u>	<u>20,455,305</u>
<i>Qualified Low Income Community Investment Notes:</i>		
QALICI Note A, 2.315%, Secured by specific parcels of land, buildings, improvements, fixtures and personal property thereon and leases, rents, issues and profits therefrom, Due in interest-only installments with principal due on April 16, 2020	3,700,000	3,700,000
QALICI Note B, 2.315%, Secured by specific parcels of land, buildings, improvements, fixtures and personal property thereon and leases, rents, issues and profits therefrom, Due in interest-only installments through April 16, 2020, Commencing May 1, 2020 due in monthly installments of \$12,939 with principal due on April 16, 2043	2,766,900	2,766,900
QALICI Note C, 2.315%, Secured by specific parcels of land, buildings, improvements, fixtures and personal property thereon and leases, rents, issues and profits therefrom, Due in interest-only installments through April 1, 2020, Commencing May 1, 2020 due in monthly installments of \$12,407 with principal due on April 16, 2043	2,653,100	2,653,100
<i>Subtotal - Qualified Low Income Community Investment Notes</i>	<u>9,120,000</u>	<u>9,120,000</u>
<i>Non-Interest Bearing Notes:</i>		
Notes Payable, Noninterest-bearing, Secured by Specifically Identified Mortgages Receivable, Due in Monthly Installments Based on the Term of the Loans, Current Monthly Installments of \$56,049 with Balances Due through February 1, 2028 (a)	10,854,817	10,993,433

**TWIN CITIES HABITAT FOR HUMANITY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2014 AND 2013**

**NOTE 7 LONG-TERM NOTES PAYABLE (CONTINUED)**

<u>Description</u>	<u>2014</u>	<u>2013</u>
<i><u>Non-Interest Bearing Notes (Continued):</u></i>		
Notes Payable, Noninterest-bearing, Unsecured, Due in Monthly Installments to Habitat for Humanity International for the SHOP program over 48 months (b)	398,189	328,643
Note Payable, Noninterest-bearing, Secured by Underlying Interest in Property, Amount Due in Monthly Installments of \$1,000 or once a year at \$12,000 through December 31, 2019	72,000	84,000
Note Payable, Noninterest-bearing, Unsecured, Amount Due in Yearly Installments of \$6,667 through January 1, 2036	146,664	153,331
Notes Payable, Noninterest-bearing, Unsecured, Due in One Annual Installment on June 29, 2014	-	90,375
<i>Subtotal - Non-Interest Bearing Notes</i>	<u>11,471,670</u>	<u>11,649,782</u>
<i><u>Forgivable Notes:</u></i>		
Note Payable, Noninterest-bearing, Unsecured, No Payments Required, Forgivable on February 1, 2018 Contingent on Specific Requirements Being Met	110,000	110,000
Note Payable, Noninterest-bearing, Unsecured, No Payments Required, Forgivable on January 31, 2019 Contingent on Specific Requirements Being Met	70,000	70,000
Note Payable, Noninterest-bearing, Unsecured, No Payments Required, Forgivable on January 31, 2019 Contingent on Specific Requirements Being Met	80,000	80,000
Notes Payable, Noninterest-bearing, Unsecured, No Payments Required, Forgivable between July 1, 2032 and June 1, 2038 Contingent on Specific Requirements Being Met	523,274	523,274
Notes Payable, Noninterest-bearing, Unsecured, No Payments Required, Forgivable Contingent on Specific Requirements Being Met	1,023,189	1,841,322
<i>Subtotal - Forgivable Notes</i>	<u>1,806,463</u>	<u>2,624,596</u>
Total	44,218,542	43,849,683
Less: Unamortized Discount	(6,518,788)	(6,666,951)
Long-Term Notes Payable, Net	<u>\$ 37,699,754</u>	<u>\$ 37,182,732</u>

- (a) Notes Payable due to Habitat for Humanity of Minnesota, Inc., an affiliate  
(b) Notes Payable due to Habitat for Humanity International, a related party

**TWIN CITIES HABITAT FOR HUMANITY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2014 AND 2013**

**NOTE 7 LONG-TERM NOTES PAYABLE (CONTINUED)**

Maturities of long-term notes payable are as follows:

<u>Year Ending June 30,</u>	<u>Repayable</u>	<u>Forgivable</u>
2015	\$ 1,449,835	\$ 925,189
2016	2,454,283	-
2017	2,460,991	-
2018	2,581,993	-
2019	1,693,956	-
Thereafter	31,771,021	881,274
Total	<u>\$ 42,412,079</u>	<u>\$ 1,806,463</u>

The interest-bearing notes payable were made to the Organization at rates below the prevailing market rates and are discounted at the prevailing market rate at time of origination. These discounts are reflected as contributions in the year of origination.

These original discounts and related amortization are reflected as non-operating activity in the consolidated statement of activities. Notes payable are secured by pledged mortgages receivable equal to the notes balance.

The Organization had entered into a three-year future loan commitment with US Bank for three term loans of \$750,000 each. As of June 30, 2014, the Organization has drawn on all three of the term loans.

Subsequent to year-end, the Organization increased their borrowings with Habitat for Humanity of Minnesota, Inc. for \$1,003,191 and at interest rates between 0% and 3%.

**New Market Tax Credit Financing**

In April 2013, TCHFH St. Paul HQ, LLC obtained a new market tax credit enhanced mortgage loan for a total of \$9,120,000 (consisting of QALICI Notes A, B and C) to finance project costs related to the construction of the new corporate headquarters for TCHFH and TCHFH St. Paul HQ, LLC. TCHFH St. Paul HQ, LLC is a 95% owned LLC of Twin Cities Habitat for Humanity, Inc. with the remaining 5% owned by another nonprofit affordable housing organization, and subject to a member control agreement. TCHFH and the other nonprofit affordable housing organization contributed \$359,237 and \$18,907, respectively, of capital to TCHFH St. Paul HQ, LLC. Participating lenders received an allocation of new market tax credits pursuant to Section 45D of the Code in order to assist eligible businesses in making new investments in certain communities. As part of the NMTC transaction, TCHFH loaned \$6,466,900 (consisting of Leveraged Loans A and B) to a third-party investment fund, which along with new market tax credit equity from a participating bank, loaned NMTC proceeds to TCHFH St. Paul HQ, LLC in the form of QALICI Notes A, B and C, which are eligible for prepayment on April 1, 2020.

**TWIN CITIES HABITAT FOR HUMANITY, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

**NOTE 7 LONG-TERM NOTES PAYABLE (CONTINUED)**

**New Market Tax Credit Financing (Continued)**

TCHFH also obtained a short-term loan in the amount of \$1,911,605 in April 2013, the proceeds of which were combined with proceeds of the Pledge Loan Payable and \$330,859 of TCHFH's own cash and re-loaned to the third party investment fund as Leveraged Loan B. The short-term loan of \$1,911,605, plus interest at 2.75% plus one-month LIBOR, was repaid on the closing date of the NMTC transaction.

**NOTE 8 LINE OF CREDIT**

The Organization has a revolving line of credit, expiring March 1, 2015, that permits borrowings up to \$500,000. Interest is calculated at 2.85% plus the one-month LIBOR rate. The agreement is secured by assets held by the Organization, excluding mortgages receivable, and has certain financial and non-financial covenants for which the Organization must comply with. As of June 30, 2014 and 2013, there was no outstanding balance.

The Organization has a revolving line of credit, expiring March 1, 2015, that permits borrowings up to \$1,200,000. Interest is calculated at 2.85% plus the one-month LIBOR rate. The agreement is secured by multi-year donation pledges. As of June 30, 2014 and 2013, there was an outstanding balance of \$450,000 and \$750,000, respectively.

**NOTE 9 LEASES**

The Organization leases a warehouse facility, office space for the Mortgage Foreclosure Prevention Program, and an outlet store under non-cancelable operating lease agreements. Each of these leases requires monthly rent payments and requires the Organization to pay its portion of taxes, maintenance and operating expenses. Rent expense for the years ended June 30, 2014 and 2013 was \$332,759 and \$317,305, respectively.

Minimum lease payments for operating leases, which include the office lease renewal, in future years are as follows:

<u>Year Ending June 30,</u>	<u>Operating Leases</u>
2015	\$ 149,482
2016	112,652
2017	107,186
2018	62,312
Total Minimum Lease Payments	<u>\$ 431,632</u>



**TWIN CITIES HABITAT FOR HUMANITY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2014 AND 2013**

**NOTE 10 IN-KIND CONTRIBUTIONS**

In-kind contributions consisted of the following for the years ended June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Land and Building	\$ 2,636,010	\$ 2,312,701
Materials and Equipment	325,212	305,268
Inventory Held for Resale	-	79,123
Specialized Labor	47,919	59,285
Subtotal In-Kind Contributions	<u>3,009,141</u>	<u>2,756,377</u>
Special Event Donated Material	87,246	58,831
Total In-Kind Contributions	<u>\$ 3,096,387</u>	<u>\$ 2,815,208</u>

In-kind contributions were expended as follows for the years ended June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Cost of Homes Sold	\$ 1,407,107	\$ 1,534,373
Specialized Labor and Services	47,919	59,285
Materials and Equipment	322,098	296,752
Special Event Direct Benefits	87,246	58,831
Total In-Kind Expenses	<u>\$ 1,864,370</u>	<u>\$ 1,949,241</u>

The difference between revenue and expense is due to in-kind contributions held in inventory.

**NOTE 11 DEFINED CONTRIBUTION PLAN**

The Organization sponsors a 401(k) and Profit Sharing Plan. Under this plan, eligible employees may elect to defer up to 80% of their eligible compensation.

Under the plan, the Organization contributes an amount on behalf of each eligible participant equal to 100% of their contribution up to 3% of the employees' contributions. Contributions to these plans by the Organization were \$92,870 and \$90,698 for the years ended June 30, 2014 and 2013, respectively.

**TWIN CITIES HABITAT FOR HUMANITY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2014 AND 2013**

**NOTE 12 TEMPORARILY RESTRICTED**

Temporarily restricted net assets consist of the following at June 30, 2014 and 2013:

	2014	2013
Time Restricted Pledges	\$ 1,277,086	\$ 2,419,576
Restricted for Program Purposes	1,437,214	606,323
Unappropriated Endowment Earnings	24,434	23,758
Building Pledges Outstanding	-	1,055,196
St. Paul HQ LLC Pledges Paid	-	2,228,631
Total Temporarily Restricted Net Assets	<u>\$ 2,738,734</u>	<u>\$ 6,333,484</u>

Net assets released from restriction consist of the following at June 30, 2014 and 2013:

	2014	2013
Net Pledges Received	\$ 1,335,490	\$ 1,608,802
House Expenditures Incurred	458,839	573,433
Operating Net Assets Released from Restrictions	1,794,329	2,182,235
Net Assets Released from Restrictions - Capital	3,283,827	-
Total Releases from Restriction	<u>\$ 5,078,156</u>	<u>\$ 2,182,235</u>

**NOTE 13 ENDOWMENT**

**Donor Restricted Endowments**

During the year ended June 30, 2004, the Organization received a \$665,363 foundation contribution that was permanently restricted for endowment purposes. All funds are currently invested in cash and cash equivalents. Prior to June 30, 2008, all endowment earnings were made available and used to support operating activities.

The composition of endowment funds by type of fund are as follows at June 30, 2014 and 2013:

	2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor Restricted Endowment Funds	\$ -	\$ 24,434	\$ 665,363	\$ 689,797

	2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor Restricted Endowment Funds	\$ -	\$ 23,758	\$ 665,363	\$ 689,121

**TWIN CITIES HABITAT FOR HUMANITY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2014 AND 2013**

**NOTE 13 ENDOWMENT (CONTINUED)**

**Donor Restricted Endowments (Continued)**

The summary of changes in endowment net assets are as follows:

	2014			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment Fund Balance, June 30, 2013	\$ -	\$ 23,758	\$ 665,363	\$ 689,121
Contributions	-	-	-	-
Investment Income	-	676	-	676
Appropriations	-	-	-	-
Endowment Fund Balance, June 30, 2014	<u>\$ -</u>	<u>\$ 24,434</u>	<u>\$ 665,363</u>	<u>\$ 689,797</u>

	2013			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment Fund Balance, June 30, 2012	\$ -	\$ 22,414	\$ 665,363	\$ 687,777
Contributions	-	-	-	-
Investment Income	-	1,344	-	1,344
Appropriations	-	-	-	-
Endowment Fund Balance, June 30, 2013	<u>\$ -</u>	<u>\$ 23,758</u>	<u>\$ 665,363</u>	<u>\$ 689,121</u>

This donor restricted endowment fund was established for the purpose of securing the Organization's long-term financial viability. As required by accounting principles generally accepted in the United States of America, net assets of the endowment fund are classified and reported based on the existence or absence of donor-imposed restrictions. The board of directors has interpreted the State's Uniform Prudent Management of Institutional Funds Act (UPMIFA) as maintaining the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation the Organization classifies as permanently restricted net assets the original value of the gift to the permanent endowment. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets, until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

**Investment Objectives and Strategies**

The Organization has adopted an investment policy to guide the investing of this single donor endowment asset. Under the approved policy this endowment asset is invested in a manner that is intended to maintain its principal, in accordance with the donors' wishes.

**TWIN CITIES HABITAT FOR HUMANITY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2014 AND 2013**

**NOTE 13 ENDOWMENT (CONTINUED)**

**Spending Policy**

The board of directors authorized appropriations as it deems prudent. The Organization has a practice of appropriating for distribution only investment earnings in excess of original endowed principal. Unappropriated earnings for the fiscal years 2009 - 2014 total \$24,434.

**TWIN CITIES HABITAT FOR HUMANITY, INC.**  
**CONSOLIDATING BALANCE SHEET**  
**JUNE 30, 2014**

<b>ASSETS</b>	Twin Cities Habitat for Humanity, Inc.	CHDO	TCHFH St. Paul HQ, LLC	Eliminations	Consolidated
Cash and Cash Equivalents	\$ 7,197,804	\$ -	\$ 58,029	\$ -	\$ 7,255,833
Certificate of Deposit	235,146	-	-	-	235,146
Equity Investment in TCHFH St. Paul HQ, LLC	359,237	-	-	(359,237)	-
Accounts Receivable	408,871	-	-	-	408,871
Contributions Receivable, Net	1,604,258	-	-	-	1,604,258
Inventory	5,792,949	-	-	-	5,792,949
Prepaid Expenses	688,543	-	-	-	688,543
Funds Held in Escrow	-	-	-	-	-
Leverage Loan Receivable	6,466,900	-	-	-	6,466,900
Property and Equipment, Net	312,909	-	9,910,643	(528,656)	9,694,896
Mortgages Receivable:					
Mortgages Receivable at Face Value	67,318,056	-	-	-	67,318,056
Less: Unamortized Discount	(27,199,968)	-	-	-	(27,199,968)
Mortgages Receivable, Net	40,118,088	-	-	-	40,118,088
<b>Total Assets</b>	<b>\$ 63,184,705</b>	<b>\$ -</b>	<b>\$ 9,968,672</b>	<b>\$ (887,893)</b>	<b>\$ 72,265,484</b>
<b>LIABILITIES AND NET ASSETS</b>					
<b>LIABILITIES</b>					
Accounts Payable	\$ 350,261	\$ -	\$ 10,820	\$ -	\$ 361,081
Accrued Expenses	590,709	-	17,594	-	608,303
Affiliate Payable	-	-	-	-	-
Line of Credit	450,000	-	-	-	450,000
Long-Term Notes Payable:					
Long-Term Notes Payable at Face Value	35,098,542	-	9,120,000	-	44,218,542
Less: Unamortized Discount	(6,518,788)	-	-	-	(6,518,788)
Long-Term Notes Payable, Net	28,579,754	-	9,120,000	-	37,699,754
<b>Total Liabilities</b>	<b>29,970,724</b>	<b>-</b>	<b>9,148,414</b>	<b>-</b>	<b>39,119,138</b>
<b>NET ASSETS</b>					
Unrestricted	29,809,884	-	820,258	(887,893)	29,742,249
Temporarily Restricted	2,738,734	-	-	-	2,738,734
Permanently Restricted	665,363	-	-	-	665,363
<b>Total Net Assets</b>	<b>33,213,981</b>	<b>-</b>	<b>820,258</b>	<b>(887,893)</b>	<b>33,146,346</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 63,184,705</b>	<b>\$ -</b>	<b>\$ 9,968,672</b>	<b>\$ (887,893)</b>	<b>\$ 72,265,484</b>

**TWIN CITIES HABITAT FOR HUMANITY, INC.  
CONSOLIDATING STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2014**

	Twin Cities Habitat for Humanity, Inc.			CHDO	TCHFH St. Paul HQ, LLC			Consolidated		
	Unrestricted	Temporarily Restricted	Permanently Restricted	Unrestricted	Unrestricted	Temporarily Restricted	Eliminations	Unrestricted	Temporarily Restricted	Permanently Restricted
<b>OPERATING REVENUE AND SUPPORT</b>										
Operating Revenue:										
Home Sales (Mortgages Received)	\$ 6,942,128	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,942,128	\$ -	\$ -
Interest Income	161,350	676	-	-	-	-	-	161,350	676	-
ReStore Sales (Net of Direct Expense of \$529,095)	188,050	-	-	-	-	-	-	188,050	-	-
Gain on Disposal of Assets	469,665	-	-	-	-	-	-	469,665	-	-
Other	655,604	-	-	-	83,570	-	(612,226)	126,948	-	-
Total Operating Revenue	8,416,797	676	-	-	83,570	-	(612,226)	7,888,141	676	-
Support:										
Foundations	7,586	90,000	-	-	-	-	-	7,586	90,000	-
Corporations	1,934,645	851,265	-	-	-	-	-	1,934,645	851,265	-
Religious Organizations	366,812	85,608	-	-	-	-	-	366,812	85,608	-
Individuals	2,513,245	295,549	-	-	-	-	-	2,513,245	295,549	-
Public Sector Funds	2,721,050	160,308	-	408,862	-	-	-	3,129,912	160,308	-
In-Kind	3,009,141	-	-	-	-	-	-	3,009,141	-	-
Special Events (Net of Direct Expense of \$295,609)	519,953	-	-	-	-	-	-	519,953	-	-
Total Support	11,072,432	1,482,730	-	408,862	-	-	-	11,481,294	1,482,730	-
Net Assets Released from Restrictions	1,794,329	(1,794,329)	-	-	-	-	-	1,794,329	(1,794,329)	-
Total Operating Revenue and Support	21,283,558	(310,923)	-	408,862	83,570	-	(612,226)	21,163,764	(310,923)	-
<b>OPERATING EXPENSES</b>										
Program Services	15,989,186	-	-	408,862	162,237	-	(65,185)	16,495,100	-	-
Management and General	553,572	-	-	-	18,176	-	(7,299)	564,449	-	-
Fundraising	1,590,804	-	-	-	27,607	-	(11,086)	1,607,325	-	-
Total Operating Expenses	18,133,562	-	-	408,862	208,020	-	(83,570)	18,666,874	-	-
<b>OPERATING INCREASE (DECREASE) IN NET ASSETS</b>	3,149,996	(310,923)	-	-	(124,450)	-	(528,656)	2,496,890	(310,923)	-
<b>NONOPERATING ACTIVITIES</b>										
Contribution of Below Market Interest Rate Debt	537,473	-	-	-	-	-	-	537,473	-	-
Home Sales Mortgage Discount	(3,056,407)	-	-	-	-	-	-	(3,056,407)	-	-
Amortization of Discount on Mortgages	2,215,113	-	-	-	-	-	-	2,215,113	-	-
Amortization of Discount on Long-Term Notes Payable	(738,852)	-	-	-	-	-	-	(738,852)	-	-
Equity Investment in TCHFH St. Paul HQ, LLC	-	-	-	-	-	-	-	-	-	-
Contribution of Donated Items to LLC	(566,583)	-	-	-	566,583	-	-	-	-	-
Contributions for Capital Purposes	1,018,823	-	-	-	-	-	-	1,018,823	-	-
Net Assets Released from Restrictions - Capital	3,283,827	(3,283,827)	-	-	-	-	-	3,283,827	(3,283,827)	-
<b>NONOPERATING INCREASE (DECREASE) IN NET ASSETS</b>	2,693,394	(3,283,827)	-	-	566,583	-	-	3,259,977	(3,283,827)	-
<b>TOTAL INCREASE (DECREASE) IN NET ASSETS</b>	5,843,390	(3,594,750)	-	-	442,133	-	(528,656)	5,756,867	(3,594,750)	-
Net Assets - Beginning of Year	23,966,494	6,333,484	665,363	-	378,125	-	(359,237)	23,985,382	6,333,484	665,363
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 29,809,884</u>	<u>\$ 2,738,734</u>	<u>\$ 665,363</u>	<u>\$ -</u>	<u>\$ 820,258</u>	<u>\$ -</u>	<u>\$ (887,893)</u>	<u>\$ 29,742,249</u>	<u>\$ 2,738,734</u>	<u>\$ 665,363</u>