

TWIN CITIES HABITAT FOR HUMANITY, INC.
CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2013 AND 2012

**TWIN CITIES HABITAT FOR HUMANITY, INC.
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YEARS ENDED JUNE 30, 2013 AND 2012**

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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, 2013 and 2012, and the related consolidated statements of activities, functional expenses, and cash flows 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 audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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, 2013 and 2012, 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 7, 2013

TWIN CITIES HABITAT FOR HUMANITY, INC.
CONSOLIDATED BALANCE SHEETS
JUNE 30, 2013 AND 2012

	2013	2012
ASSETS		
Cash and Cash Equivalents	\$ 3,765,843	\$ 3,041,526
Certificate of Deposit	233,639	230,165
Accounts Receivable	532,544	383,364
Contributions Receivable, Net	3,474,702	4,131,279
Inventory	6,727,740	6,782,299
Prepaid Expenses	521,738	524,704
Property and Equipment, Net	3,855,978	2,507,312
Funds Held in Escrow	7,065,069	-
Leveraged Loans Receivable	6,466,900	-
Mortgages Receivable:		
Mortgages Receivable at Face Value	64,154,889	60,503,696
Less: Unamortized Discount	(26,358,674)	(25,707,443)
Mortgages Receivable, Net	37,796,215	34,796,253
 Total Assets	 \$ 70,440,368	 \$ 52,396,902
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable	\$ 881,106	\$ 784,908
Accrued Expenses	618,880	725,652
Affiliate Payable	23,421	30,977
Line of Credit	750,000	500,000
Long-Term Notes Payable:		
Long-Term Notes Payable at Face Value	43,849,683	28,984,929
Less: Unamortized Discount	(6,666,951)	(6,872,234)
Long-Term Notes Payable, Net	37,182,732	22,112,695
 Total Liabilities	 39,456,139	 24,154,232
NET ASSETS		
Unrestricted	23,985,382	22,322,243
Temporarily Restricted	6,333,484	5,255,064
Permanently Restricted	665,363	665,363
Total Net Assets	30,984,229	28,242,670
 Total Liabilities and Net Assets	 \$ 70,440,368	 \$ 52,396,902

See accompanying Notes to Consolidated Financial Statements.

TWIN CITIES HABITAT FOR HUMANITY, INC.
CONSOLIDATED STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2013 AND 2012

	2013			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
OPERATING REVENUE AND SUPPORT				
Operating Revenue:				
Home Sales (Mortgages Received)	\$ 7,065,446	\$ -	\$ -	\$ 7,065,446
Interest Income	23,797	1,344	-	25,141
ReStore Sales (Net of Direct Expense of \$519,750 and \$576,668)	64,386	-	-	64,386
Other	85,121	-	-	85,121
Total Operating Revenue	<u>7,238,750</u>	<u>1,344</u>	<u>-</u>	<u>7,240,094</u>
Support:				
Foundations	-	834,000	-	834,000
Corporations	3,288,977	728,139	-	4,017,116
Religious Organizations	414,770	60,000	-	474,770
Individuals	2,290,823	1,615,223	-	3,906,046
Public Sector Funds	3,184,066	21,949	-	3,206,015
In-Kind	2,756,377	-	-	2,756,377
Special Events (Net of Direct Expense of \$248,876 and \$291,906)	437,734	-	-	437,734
Total Support	<u>12,372,747</u>	<u>3,259,311</u>	<u>-</u>	<u>15,632,058</u>
Net Assets Released from Restrictions	<u>2,182,235</u>	<u>(2,182,235)</u>	<u>-</u>	<u>-</u>
Total Operating Revenue and Support	21,793,732	1,078,420	-	22,872,152
OPERATING EXPENSES				
Program Services	17,301,801	-	-	17,301,801
Management and General	454,136	-	-	454,136
Fundraising	1,480,599	-	-	1,480,599
Total Operating Expenses	<u>19,236,536</u>	<u>-</u>	<u>-</u>	<u>19,236,536</u>
OPERATING INCREASE IN NET ASSETS	2,557,196	1,078,420	-	3,635,616
NONOPERATING ACTIVITIES				
Contribution of Below Market Interest Rate Debt	464,021	-	-	464,021
Home Sales Mortgage Discount	(2,809,157)	-	-	(2,809,157)
Amortization of Discount on Mortgages	2,157,926	-	-	2,157,926
Amortization of Discount on Long-Term Notes Payable	(715,508)	-	-	(715,508)
Equity Investment in TCHFH St. Paul HQ, LLC	18,907	-	-	18,907
Loss on Disposal of Assets	(10,246)	-	-	(10,246)
NONOPERATING DECREASE IN NET ASSETS	<u>(894,057)</u>	<u>-</u>	<u>-</u>	<u>(894,057)</u>
TOTAL INCREASE IN NET ASSETS	1,663,139	1,078,420	-	2,741,559
Net Assets - Beginning of Year	<u>22,322,243</u>	<u>5,255,064</u>	<u>665,363</u>	<u>28,242,670</u>
NET ASSETS - END OF YEAR	<u>\$ 23,985,382</u>	<u>\$ 6,333,484</u>	<u>\$ 665,363</u>	<u>\$ 30,984,229</u>

See accompanying Notes to Consolidated Financial Statements.

2012			
Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 7,380,079	\$ -	\$ -	\$ 7,380,079
6,108	1,652	-	7,760
(130,673)	-	-	(130,673)
39,963	-	-	39,963
<u>7,295,477</u>	<u>1,652</u>	<u>-</u>	<u>7,297,129</u>
97,000	230,000	-	327,000
4,343,739	1,056,433	-	5,400,172
362,341	21,350	-	383,691
1,800,893	1,522,572	-	3,323,465
3,163,638	52,000	-	3,215,638
1,625,909	52,800	-	1,678,709
351,094	-	-	351,094
<u>11,744,614</u>	<u>2,935,155</u>	<u>-</u>	<u>14,679,769</u>
1,866,738	(1,866,738)	-	-
<u>20,906,829</u>	<u>1,070,069</u>	<u>-</u>	<u>21,976,898</u>
17,019,381	-	-	17,019,381
526,293	-	-	526,293
1,639,420	-	-	1,639,420
<u>19,185,094</u>	<u>-</u>	<u>-</u>	<u>19,185,094</u>
1,721,735	1,070,069	-	2,791,804
266,696	-	-	266,696
(2,972,802)	-	-	(2,972,802)
2,315,048	-	-	2,315,048
(794,487)	-	-	(794,487)
-	-	-	-
-	-	-	-
<u>(1,185,545)</u>	<u>-</u>	<u>-</u>	<u>(1,185,545)</u>
536,190	1,070,069	-	1,606,259
<u>21,786,053</u>	<u>4,184,995</u>	<u>665,363</u>	<u>26,636,411</u>
<u>\$ 22,322,243</u>	<u>\$ 5,255,064</u>	<u>\$ 665,363</u>	<u>\$ 28,242,670</u>

TWIN CITIES HABITAT FOR HUMANITY, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in Net Assets	\$ 2,741,559	\$ 1,606,259
Adjustments to Reconcile Increase in Net Assets to Net Cash Used by Operating Activities:		
Depreciation	179,209	185,702
In-Kind Contributions	(2,815,208)	(1,809,364)
Forgiveness of Debt	(1,299,220)	(1,011,160)
Discounts on Mortgages Related to Current-Year Home Sales	2,809,157	2,972,802
Discounts on Current-Year Borrowings Under Long-Term Notes Payable	(464,021)	(266,696)
Amortization of Discounts on Mortgages Receivable	(2,157,926)	(2,315,048)
Amortization of Discount on Long-Term Notes Payable	715,508	794,487
Unrealized Gain on Certificate of Deposit	(3,474)	(5,537)
Loss on Disposal of Property and Equipment	10,246	-
Changes in Operating Assets and Liabilities:		
Accounts Receivable	(149,180)	211,018
Contributions Receivable, Net	656,577	(514,782)
Inventory	(4,130,522)	(5,745,027)
Prepaid Expenses	(43,238)	(90,487)
Accounts Payable	96,198	105,788
Accrued Expenses	(106,772)	136,602
Affiliate Payable	(7,556)	(53,771)
Net Cash Used by Operating Activities	(3,968,663)	(5,799,214)
CASH FLOWS FROM INVESTING ACTIVITIES		
Collections on Mortgages Receivable	3,349,096	4,051,359
Leveraged Loans Issued	(6,466,900)	-
Purchases of Property and Equipment	(1,538,121)	(1,326,705)
Net Cash Provided (Used) by Investing Activities	(4,655,925)	2,724,654
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowings on Line of Credit	2,100,000	-
Payments on Line of Credit	(1,850,000)	(500,000)
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	2,433,075	-
Payments on Long-Term Notes Payable	(1,456,045)	(2,314,248)
Borrowings on Long-Term Notes Payable	17,620,019	3,101,458
Net Cash Provided (Used) by Financing Activities	9,348,905	287,210
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	724,317	(2,787,350)
Cash and Cash Equivalents - Beginning	3,041,526	5,828,876
CASH AND CASH EQUIVALENTS - ENDING	\$ 3,765,843	\$ 3,041,526
SUPPLEMENTARY CASH FLOW INFORMATION		
Interest Paid	\$ 507,349	\$ 427,874
NONCASH ITEMS		
Inventory and Equipment Contributed by Donors	\$ 2,756,377	\$ 1,678,709
Mortgages Received in Exchange for Homes Sold	\$ 7,000,289	\$ 7,377,078
Contributions and Pledge Payments of Investment Securities	\$ 96,159	\$ 475,913

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			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 Homes Sold	\$ 9,512,980	\$ -	\$ 286,212	\$ -	\$ 9,799,192	\$ -	\$ -	\$ -	\$ 9,799,192
Other Program Materials - Cash	879	-	9,942	-	10,821	-	-	-	10,821
Other Program Materials - In-Kind	4,232	-	47,859	-	52,091	-	-	-	52,091
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
Depreciation	76,935	4,155	16,589	33,497	131,176	11,752	17,557	29,309	160,485
Total	\$ 13,631,031	\$ 1,565,457	\$ 1,306,188	\$ 1,514,633	\$ 18,017,309	\$ 454,136	\$ 1,480,599	\$ 1,934,735	\$ 19,952,044
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	\$ 13,631,031	\$ 1,565,457	\$ 1,306,188	\$ 1,514,633	\$ 18,017,309	\$ 454,136	\$ 1,480,599	\$ 1,934,735	\$ 19,952,044
Percentage	68.32%	7.85%	6.55%	7.59%	90.30%	2.28%	7.42%	9.70%	100.00%

See accompanying Notes to Consolidated Financial Statements.

TWIN CITIES HABITAT FOR HUMANITY, INC.
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2012

	2012								
	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 Homes Sold	\$ 9,230,833	\$ -	\$ 283,777	\$ 14,936	\$ 9,529,546	\$ -	\$ -	\$ -	\$ 9,529,546
Other Program Materials - Cash	44	43	60,267	31	60,385	3,178	-	3,178	63,563
Other Program Materials - In-Kind	11,740	-	103,890	5,468	121,098	-	-	-	121,098
Salaries, Taxes, and Benefits	2,862,864	213,980	685,301	1,075,316	4,837,461	313,102	1,133,033	1,446,135	6,283,596
Professional Fees	182,298	87,798	103,074	106,685	479,855	140,063	196,831	336,894	816,749
Printing and Media	2,541	2,518	2,434	24,213	31,706	1,549	126,203	127,752	159,458
Postage	7,392	430	1,881	6,850	16,553	1,309	21,790	23,099	39,652
Insurance	51,339	2,785	16,954	23,570	94,648	8,960	15,204	24,164	118,812
Telephone	45,017	840	9,797	10,697	66,351	2,142	4,138	6,280	72,631
Occupancy	179,038	1,255	35,284	23,054	238,631	6,678	11,597	18,275	256,906
Vehicle Fleet	44,419	1,592	20,391	14,169	80,571	4,987	8,690	13,677	94,248
General Supplies, Tools and Site Supplies	302,586	3,831	13,236	38,709	358,362	9,645	28,196	37,841	396,203
Equipment Lease and Maintenance	18,339	532	2,385	4,915	26,171	1,666	3,425	5,091	31,262
Warranty	12,928	-	-	-	12,928	-	-	-	12,928
Meals and Travel	36,138	3,790	7,566	56,166	103,660	5,892	33,210	39,102	142,762
Staff Development	17,696	1,634	6,013	13,119	38,462	1,829	12,707	14,536	52,998
Habitat International Building Fees	5,529	301	1,350	2,548	9,728	943	1,644	2,587	12,315
Tithe for International Homes	256,078	-	-	-	256,078	-	-	-	256,078
Property Taxes	4,907	-	-	3,053	7,960	3,438	5,156	8,594	16,554
Loan Servicing and Bank Fees	24,493	24,916	1,062	19,655	70,126	8,031	11,941	19,972	90,098
Miscellaneous	13,415	2,685	3,297	8,993	28,390	1,382	5,616	6,998	35,388
Discount Amortization and Interest Expense	-	1,222,361	-	-	1,222,361	-	-	-	1,222,361
Depreciation	69,426	3,671	16,456	33,284	122,837	11,499	20,039	31,538	154,375
Total	<u>\$ 13,379,060</u>	<u>\$ 1,574,962</u>	<u>\$ 1,374,415</u>	<u>\$ 1,485,431</u>	<u>\$ 17,813,868</u>	<u>\$ 526,293</u>	<u>\$ 1,639,420</u>	<u>\$ 2,165,713</u>	<u>\$ 19,979,581</u>
Operating	\$ 13,335,368	\$ 824,167	\$ 1,374,415	\$ 1,485,431	\$ 17,019,381	\$ 526,293	\$ 1,639,420	\$ 2,165,713	\$ 19,185,094
Nonoperating	43,692	750,795	-	-	794,487	-	-	-	794,487
Total	<u>\$ 13,379,060</u>	<u>\$ 1,574,962</u>	<u>\$ 1,374,415</u>	<u>\$ 1,485,431</u>	<u>\$ 17,813,868</u>	<u>\$ 526,293</u>	<u>\$ 1,639,420</u>	<u>\$ 2,165,713</u>	<u>\$ 19,979,581</u>
Percentage	<u>66.96%</u>	<u>7.88%</u>	<u>6.88%</u>	<u>7.43%</u>	<u>89.16%</u>	<u>2.63%</u>	<u>8.21%</u>	<u>10.84%</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, 2013 AND 2012

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 for use in building homes outside the United States. The tithe is sufficient to build an equal number of homes overseas as are built locally.

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 through 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 FHLB 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, 2013 AND 2012

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.

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, 2013 and 2012, the Organization has \$441,663 and \$-0-, 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, 2013 and 2012, 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, 2013 AND 2012

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, 2013, 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, 2013 and 2012, respectively.

At June 30, 2013, the Organization has individually evaluated leveraged loans for impairment.

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. Management believes the pledges are fully collectible and as a result no allowance for doubtful accounts was recorded as of June 30, 2013 and 2012.

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 is expensed to cost of homes 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, 2013 AND 2012

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 is recognized as revenue as it is earned and expenses as they are incurred.

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.

**TWIN CITIES HABITAT FOR HUMANITY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes (Continued)

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 Organizations 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, 2010 through 2012.

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.

Subsequent Events

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through November 7, 2013, the date the financial statements were available to be issued.

NOTE 2 CONTRIBUTIONS RECEIVABLE

The present value of the contributions receivable were summarized as follows at June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Gross Contributions Receivable	\$ 3,651,603	\$ 4,382,739
Less: Present Value Discount - 5%	(176,901)	(251,460)
Net Contributions Receivable	<u>\$ 3,474,702</u>	<u>\$ 4,131,279</u>
Amounts Due in:		
Less Than One Year	\$ 2,161,567	\$ 2,075,056
One to Five Years	1,313,135	2,056,223
Total	<u>\$ 3,474,702</u>	<u>\$ 4,131,279</u>

At June 30, 2013 and 2012, three contributors comprised 25% and 33% of the contributions receivable, respectively.

TWIN CITIES HABITAT FOR HUMANITY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

NOTE 3 INVENTORY

Inventory consists of the following at June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Homes in Progress	\$ 2,743,096	\$ 2,948,557
Land and Acquired Property	3,350,572	3,282,197
Building Material	437,989	399,165
Held for Resale	196,083	152,380
Total Inventory	<u>\$ 6,727,740</u>	<u>\$ 6,782,299</u>

NOTE 4 PROPERTY AND EQUIPMENT

A summary of the property and equipment costs and related accumulated depreciation at June 30, 2013 and 2012 are as follows:

	<u>2013</u>		
	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Life</u>
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>	
	<u>2012</u>		
	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Life</u>
Land	\$ 1,021,787	\$ -	N/A
Construction in Progress	350,956	-	N/A
Buildings and Improvements	1,770,680	863,254	5 - 31.5 Years
Furniture and Equipment	1,406,621	1,266,306	5 - 7 Years
Vehicles	344,679	257,851	3 - 5 Years
	<u>\$ 4,894,723</u>	<u>\$ 2,387,411</u>	
Property and Equipment, Net		<u>\$ 2,507,312</u>	

TWIN CITIES HABITAT FOR HUMANITY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

NOTE 4 PROPERTY AND EQUIPMENT (CONTINUED)

During 2012, the Organization purchased land for their new headquarters. 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.

On November 6, 2013, the Organization entered into a purchase agreement to sell their existing headquarters building in Minneapolis, MN. The agreement is subject to various terms and conditions, including due diligence, and confidentiality. It is expected that the closing will occur prior to April 5, 2014

NOTE 5 LEVERAGED LOANS RECEIVABLE

At June 30, 2013 and 2012, the composition of leveraged loans receivable was as follows:

<u>Description</u>	<u>2013</u>	<u>2012</u>
Leveraged Loan A, 2.4316%, Due in interest-only installments with principal due on April 16, 2020	\$ 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>-</u>
Total	<u>\$ 6,466,900</u>	<u>\$ -</u>

The loans are secured by substantially all assets of the borrower. As of June 30, 2013, 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 for a price that approximates the cost to construct less public funding used to construct homes. 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, 2013 and 2012, the Organization had 773 and 730 mortgages outstanding, respectively.

TWIN CITIES HABITAT FOR HUMANITY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

NOTE 6 MORTGAGES RECEIVABLE (CONTINUED)

The mortgage loans receivable are noninterest-bearing mortgages. Since 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, 2013 and 2012, the composition of mortgages receivable is as follows:

	<u>2013</u>	<u>2012</u>
Mortgages Receivable	\$ 64,154,889	\$ 60,503,696
Less: Unamortized Discount	(26,282,796)	(25,631,565)
Less: Allowance for Credit Losses	<u>(75,878)</u>	<u>(75,878)</u>
	<u>\$ 37,796,215</u>	<u>\$ 34,796,253</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.

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

	<u>2013</u>	<u>2012</u>
Allowance for Credit Losses:		
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 table shows an aging analysis of the loan portfolio by time past due:

	<u>June 30, 2013</u>			
	<u>Current</u>	<u>30-89 Days Past Due</u>	<u>90 Days or More Past Due</u>	
Mortgages Receivable	\$ 61,072,336	\$ 1,051,164	\$ 2,031,389	\$ 64,154,889
	<u>June 30, 2012</u>			
	<u>Current</u>	<u>30-89 Days Past Due</u>	<u>90 Days or More Past Due</u>	<u>Total</u>
Mortgages Receivable	\$ 58,107,041	\$ 816,660	\$ 1,579,995	\$ 60,503,696

TWIN CITIES HABITAT FOR HUMANITY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

NOTE 7 LONG-TERM NOTES PAYABLE

Long-term notes payable consists of the following as of June 30, 2013 and 2012:

<u>Description</u>	<u>2013</u>	<u>2012</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)	\$ 620,975	\$ 724,621
Note Payable, 1%, Secured by Specifically Identified Mortgages Receivable, Due in Monthly Installments of \$1,738 through March 1, 2022 (a)	174,698	193,708
Note Payable, Interest Ranging from 1.0-3.0%, Secured by Specifically Identified Mortgages Receivable Due, in Monthly Installments of \$63,953 through April 1, 2038 (a)	12,186,504	10,772,204
Capital Lease, 7.75%, Secured by Vehicle, Due in Monthly Installments of \$1,000 through December 1, 2012	-	5,867
Capital Lease, 11%, Secured by Telephone Equipment, Due in Monthly Installments of \$1,384 through February 25, 2013	-	11,730
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	118,575	150,654
Note Payable, 3.75%, secured by specifically identified mortgages receivable, due in monthly installments of \$7,505 through May 1, 2021	614,244	680,357
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	691,267	-

TWIN CITIES HABITAT FOR HUMANITY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

NOTE 7 LONG-TERM NOTES PAYABLE (CONTINUED)

<u>Description</u>	<u>2013</u>	<u>2012</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	-
<i>Subtotal - Interest Bearing Notes</i>	<u>20,455,305</u>	<u>14,339,141</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	-
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	-
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	-
<i>Subtotal - Qualified Low Income Community Investment Notes</i>	<u>9,120,000</u>	<u>-</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)	10,993,433	11,165,868

TWIN CITIES HABITAT FOR HUMANITY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

NOTE 7 LONG-TERM NOTES PAYABLE (CONTINUED)

<u>Description</u>	<u>2013</u>	<u>2012</u>
<i>Non-Interest Bearing Notes (Continued):</i>		
Notes Payable, Noninterest-bearing, Unsecured, Due in Monthly Installments to Habitat for Humanity International for the SHOP program over 48 months (b)	328,643	241,685
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	84,000	96,000
Note Payable, Noninterest-bearing, Unsecured, Amount Due in Yearly Installments of \$6,667 through January 1, 2036	153,331	159,998
Notes Payable, Noninterest-bearing, Unsecured, Due in One Annual Installment on June 29, 2014	90,375	-
<i>Subtotal - Non-Interest Bearing Notes</i>	<u>11,649,782</u>	<u>11,663,551</u>
<i>Forgivable Notes:</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	1,841,322	2,198,963
<i>Subtotal - Forgivable Notes</i>	<u>2,624,596</u>	<u>2,982,237</u>
Total	43,849,683	28,984,929
Less: Unamortized Discount	<u>(6,666,951)</u>	<u>(6,872,234)</u>
Long-Term Notes Payable, Net	<u>\$ 37,182,732</u>	<u>\$ 22,112,695</u>

(a) Notes Payable due to Habitat for Humanity of Minnesota, Inc., a related party

(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, 2013 AND 2012

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>
2014	\$ 1,657,127	\$ 1,332,980
2015	1,666,873	-
2016	2,236,353	-
2017	2,183,469	-
2018	1,503,231	110,000
Thereafter	31,978,034	1,181,616
Total	<u>\$ 41,225,087</u>	<u>\$ 2,624,596</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 has entered into a three-year future loan commitment with US Bank for three term loans of \$750,000 each. As of June 30, 2013 the Organization has drawn on two of the term loans and has a remaining commitment for \$750,000 in loans to be drawn. Proceeds for the remaining loan were received in the amount of \$750,000 in July 2013.

Subsequent to year end, the Organization increased their borrowings with Habitat for Humanity of Minnesota, Inc. for approximately \$990,000 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, 2013 AND 2012**

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, 2014, that permits borrowings up to \$500,000. Interest is calculated at 2.91% 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, 2013 and 2012, there was no outstanding balance.

The Organization has a revolving line of credit, expiring March 1, 2014, that permits borrowings up to \$1,200,000. Interest is calculated at 2.91% plus the one-month LIBOR rate. The agreement is secured by multi-year donation pledges. As of June 30, 2013 and 2012, there was an outstanding balance of \$750,000 and \$500,000, 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. The Organization also leased a vehicle and telephone equipment under capital lease agreements, which ended during the year ended June 30, 2013. Rent expense for the years ended June 30, 2013 and 2012 was \$328,365 and \$316,849, respectively.

Capital leased assets consist of:

	2013	2012
Equipment	\$ -	\$ 103,320
Less: Accumulated Depreciation	-	(72,743)
Total	\$ -	\$ 30,577

TWIN CITIES HABITAT FOR HUMANITY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

NOTE 9 LEASES (CONTINUED)

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>
2014	\$ 174,294
2015	117,444
2016	111,495
2017	107,186
2018	62,312
Total Minimum Lease Payments	<u>\$ 572,731</u>

NOTE 10 IN-KIND CONTRIBUTIONS

In-kind contributions consisted of the following for the years ended June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Land and Building	\$ 1,383,690	\$ 571,500
Materials and Equipment	1,234,279	988,135
Inventory Held for Resale	79,123	(14,430)
Specialized Labor	59,285	133,504
Subtotal In-Kind Contributions	<u>2,756,377</u>	<u>1,678,709</u>
Special Event Donated Material	58,831	130,655
Total In-Kind Contributions	<u>\$ 2,815,208</u>	<u>\$ 1,809,364</u>

In-kind contributions were expended as follows for the years ended June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Cost of Homes Sold	\$ 1,521,168	\$ 967,860
Materials Contributed to Others	-	7,450
Special Event Direct Benefits	58,831	130,655
Total In-Kind Expenses	<u>\$ 1,579,999</u>	<u>\$ 1,105,965</u>

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

TWIN CITIES HABITAT FOR HUMANITY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

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 \$90,698 and \$89,417 for the years ended June 30, 2013 and 2012, respectively.

NOTE 12 TEMPORARILY RESTRICTED

Temporarily restricted net assets consist of the following at June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Time Restricted Pledges	\$ 2,419,576	\$ 2,939,029
Restricted for Program Purposes	606,323	573,433
Unappropriated Endowment Earnings	23,758	22,414
St. Paul HQ LLC Pledges Outstanding	1,055,196	1,192,250
St. Paul HQ LLC Pledges Paid	<u>2,228,631</u>	<u>527,938</u>
Total Temporarily Restricted Net Assets	<u>\$ 6,333,484</u>	<u>\$ 5,255,064</u>

Net assets released from restriction consist of the following at June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Net Pledges Received	\$ 1,608,802	\$ 1,509,002
House Expenditures Incurred	<u>573,433</u>	<u>357,736</u>
Total Net Assets Released from Restrictions	<u>\$ 2,182,235</u>	<u>\$ 1,866,738</u>

TWIN CITIES HABITAT FOR HUMANITY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

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, 2013 and 2012:

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

	2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor Restricted Endowment Funds	\$ -	\$ 22,414	\$ 665,363	\$ 687,777

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

	2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Fund Balance, June 30, 2011	\$ -	\$ 22,414	\$ 665,363	\$ 687,777
Contributions	-	-	-	-
Investment Income	-	1,344	-	1,344
Appropriations	-	-	-	-
Endowment Fund Balance, June 30, 2012	\$ -	\$ 23,758	\$ 665,363	\$ 689,121

	2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Fund Balance, June 30, 2010	\$ -	\$ 20,762	\$ 665,363	\$ 686,125
Contributions	-	-	-	-
Investment Income	-	1,652	-	1,652
Appropriations	-	-	-	-
Endowment Fund Balance, June 30, 2011	\$ -	\$ 22,414	\$ 665,363	\$ 687,777

TWIN CITIES HABITAT FOR HUMANITY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

NOTE 13 ENDOWMENT (CONTINUED)

Donor Restricted Endowments (Continued)

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.

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 - 2013 total \$23,758.

NOTE 14 RELATED PARTY

Twin Cities Habitat for Humanity is closely related to Habitat for Humanity of Minnesota. Through this support organization, Twin Cities Habitat for Humanity receives a significant amount of funding in the form of loans and program funds which are administered by Habitat for Humanity of Minnesota. Additionally, Twin Cities Habitat for Humanity provides administration of payroll and benefits for Habitat for Humanity of Minnesota. The amounts paid on behalf of Habitat for Humanity of Minnesota and reimbursed to Twin Cities Habitat for Humanity were \$365,391 and \$345,235 for the years ended June 30, 2013 and 2012, respectively. Accounts receivables due from Habitat for Humanity of Minnesota at June 30, 2013 and 2012 were \$42,349 and \$34,728, respectively.

TWIN CITIES HABITAT FOR HUMANITY, INC.
CONSOLIDATING BALANCE SHEET
JUNE 30, 2013

ASSETS	Twin Cities Habitat for Humanity, Inc.	CHDO	TCHFH St. Paul HQ, LLC	Eliminations	Consolidated
Cash and Cash Equivalents	\$ 3,765,843	\$ -	\$ -	\$ -	\$ 3,765,843
Certificate of Deposit	233,639	-	-	-	233,639
Equity Investment in TCHFH St. Paul HQ, LLC	359,237	-	-	(359,237)	-
Accounts Receivable	532,194	-	350	-	532,544
Due from Related Parties	350	-	-	(350)	-
Contributions Receivable, Net	3,474,702	-	-	-	3,474,702
Inventory	6,727,740	-	-	-	6,727,740
Prepaid Expenses	521,738	-	-	-	521,738
Funds Held in Escrow	-	-	7,065,069	-	7,065,069
Leverage Loan Receivable	6,466,900	-	-	-	6,466,900
Property and Equipment, Net	1,112,135	-	2,743,843	-	3,855,978
Mortgages Receivable:					
Mortgages Receivable at Face Value	64,154,889	-	-	-	64,154,889
Less: Unamortized Discount	(26,358,674)	-	-	-	(26,358,674)
Mortgages Receivable, Net	<u>37,796,215</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>37,796,215</u>
 Total Assets	 <u>\$ 60,990,693</u>	 <u>\$ -</u>	 <u>\$ 9,809,262</u>	 <u>\$ (359,587)</u>	 <u>\$ 70,440,368</u>
 LIABILITIES AND NET ASSETS					
LIABILITIES					
Accounts Payable	\$ 570,319	\$ -	\$ 310,787	\$ -	\$ 881,106
Accrued Expenses	618,880	-	-	-	618,880
Due to Related Parties	-	-	350	(350)	-
Affiliate Payable	23,421	-	-	-	23,421
Line of Credit	750,000	-	-	-	750,000
Long-Term Notes Payable:					
Long-Term Notes Payable at Face Value	34,729,683	-	9,120,000	-	43,849,683
Less: Unamortized Discount	(6,666,951)	-	-	-	(6,666,951)
Long-Term Notes Payable, Net	<u>28,062,732</u>	<u>-</u>	<u>9,120,000</u>	<u>-</u>	<u>37,182,732</u>
 Total Liabilities	 30,025,352	 -	 9,431,137	 (350)	 39,456,139
 NET ASSETS					
Unrestricted	23,966,494	-	378,125	(359,237)	23,985,382
Temporarily Restricted	6,333,484	-	-	-	6,333,484
Permanently Restricted	665,363	-	-	-	665,363
Total Net Assets	<u>30,965,341</u>	<u>-</u>	<u>378,125</u>	<u>(359,237)</u>	<u>30,984,229</u>
 Total Liabilities and Net Assets	 <u>\$ 60,990,693</u>	 <u>\$ -</u>	 <u>\$ 9,809,262</u>	 <u>\$ (359,587)</u>	 <u>\$ 70,440,368</u>

**TWIN CITIES HABITAT FOR HUMANITY, INC.
CONSOLIDATING STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2013**

	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
OPERATING REVENUE AND SUPPORT										
Operating Revenue:										
Home Sales (Mortgages Received)	\$ 7,065,446	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,065,446	\$ -	\$ -
Interest Income	23,797	1,344	-	-	-	-	-	23,797	1,344	-
ReStore Sales (Net of Direct Expense of \$519,750)	64,386	-	-	-	-	-	-	64,386	-	-
Other	85,121	-	-	-	-	-	-	85,121	-	-
Total Operating Revenue	7,238,750	1,344	-	-	-	-	-	7,238,750	1,344	-
Support:										
Foundations	-	834,000	-	-	-	-	-	-	834,000	-
Corporations	3,288,977	728,139	-	-	-	-	-	3,288,977	728,139	-
Religious Organizations	414,770	60,000	-	-	-	-	-	414,770	60,000	-
Individuals	2,290,823	1,615,223	-	-	-	-	-	2,290,823	1,615,223	-
Public Sector Funds	2,426,901	21,949	-	757,165	-	-	-	3,184,066	21,949	-
Contribution from Related Party	-	-	-	-	-	-	-	-	-	-
In-Kind	2,756,377	-	-	-	-	-	-	2,756,377	-	-
Special Events (Net of Direct Expense of \$248,876)	437,734	-	-	-	-	-	-	437,734	-	-
Total Support	11,615,582	3,259,311	-	757,165	-	-	-	12,372,747	3,259,311	-
Net Assets Released from Restrictions	2,182,235	(2,182,235)	-	-	-	-	-	2,182,235	(2,182,235)	-
Total Operating Revenue and Support	21,036,567	1,078,420	-	757,165	-	-	-	21,793,732	1,078,420	-
OPERATING EXPENSES										
Program Services	16,544,636	-	-	757,165	-	-	-	17,301,801	-	-
Management and General	454,117	-	-	-	19	-	-	454,136	-	-
Fundraising	1,480,599	-	-	-	-	-	-	1,480,599	-	-
Total Operating Expenses	18,479,352	-	-	757,165	19	-	-	19,236,536	-	-
OPERATING INCREASE (DECREASE) IN NET ASSETS	2,557,215	1,078,420	-	-	(19)	-	-	2,557,196	1,078,420	-
NONOPERATING ACTIVITIES										
Contribution of Below Market Interest Rate Debt	464,021	-	-	-	-	-	-	464,021	-	-
Home Sales Mortgage Discount	(2,809,157)	-	-	-	-	-	-	(2,809,157)	-	-
Amortization of Discount on Mortgages	2,157,926	-	-	-	-	-	-	2,157,926	-	-
Amortization of Discount on Long-Term Notes Payable	(715,508)	-	-	-	-	-	-	(715,508)	-	-
Equity Investment in TCHFH St. Paul HQ, LLC	-	-	-	-	378,144	-	(359,237)	18,907	-	-
Loss on Disposal of Assets	(10,246)	-	-	-	-	-	-	(10,246)	-	-
NONOPERATING INCREASE (DECREASE) IN NET ASSETS	(912,964)	-	-	-	378,144	-	(359,237)	(894,057)	-	-
TOTAL INCREASE (DECREASE) IN NET ASSETS	1,644,251	1,078,420	-	-	378,125	-	(359,237)	1,663,139	1,078,420	-
Net Assets - Beginning of Year	22,322,243	5,255,064	665,363	-	-	-	-	22,322,243	5,255,064	665,363
NET ASSETS - END OF YEAR	\$ 23,966,494	\$ 6,333,484	\$ 665,363	\$ -	\$ 378,125	\$ -	\$ (359,237)	\$ 23,985,382	\$ 6,333,484	\$ 665,363