

TWIN CITIES HABITAT FOR HUMANITY, INC.

**CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

YEARS ENDED JUNE 30, 2019 AND 2018

**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 Consolidated 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, 2019 and 2018, 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.

Board of Directors
Twin Cities Habitat for Humanity, Inc.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Twin Cities Habitat for Humanity, Inc. as of June 30, 2019 and 2018, and the change in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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 14, 2019

TWIN CITIES HABITAT FOR HUMANITY, INC.
CONSOLIDATED BALANCE SHEETS
JUNE 30, 2019 AND 2018

	2019	2018
ASSETS		
Cash and Cash Equivalents	\$ 5,797,414	\$ 5,403,768
Investments (Note 14)	780,498	741,354
Accounts Receivable	1,047,330	695,416
Mortgage Servicing Asset, Net (Note 16)	523,212	256,766
Contributions Receivable, Net (Note 2)	4,739,614	6,194,486
Inventory (Note 3)	13,533,037	12,399,978
Land Held in Trust	859,719	729,719
Prepaid and Other Assets	624,110	426,809
Leveraged Loans Receivable (Note 5)	10,127,032	6,466,900
Property and Equipment, Net (Note 4)	8,897,512	9,150,151
Mortgages Receivable (Note 6):		
Mortgages Receivable Held, at Face Value	58,922,701	63,055,069
Mortgages Receivable Held for Sale, at Face Value	5,393,223	3,361,787
Less: Unamortized Discount and Allowance	(20,764,519)	(22,927,606)
Mortgages Receivable, Net	43,551,405	43,489,250
 Total Assets	 \$ 90,480,883	 \$ 85,954,597
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable	\$ 821,623	\$ 855,069
Accrued Expenses	838,604	905,429
Line of Credit (Note 8)	6,942,389	2,698,950
Unearned Grant Revenue	1,894,002	638,747
Long-Term Notes Payable (Note 7):		
Long-Term Notes Payable, at Face Value	46,304,659	45,630,646
Less: Unamortized Discount and Origination Fees	(5,831,390)	(6,188,259)
Long-Term Notes Payable, Net	40,473,269	39,442,387
 Total Liabilities	 50,969,887	 44,540,582
NET ASSETS		
Without Donor Restrictions	33,338,040	33,522,739
With Donor Restrictions (Note 12)	6,172,956	7,891,276
Total Net Assets	39,510,996	41,414,015
 Total Liabilities and Net Assets	 \$ 90,480,883	 \$ 85,954,597

See accompanying Notes to Consolidated Financial Statements.

**TWIN CITIES HABITAT FOR HUMANITY, INC.
CONSOLIDATED STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2019 AND 2018**

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
OPERATING REVENUE AND SUPPORT			
Operating Revenue:			
Home Sales (Mortgages Received)	\$ 10,114,361	\$ -	\$ 10,114,361
Interest Income	254,615	40,610	295,225
ReStore Sales (Net of Direct Expense of \$1,492,421 and \$1,472,350, Respectively)	313,346	-	313,346
Other	521,720	-	521,720
Total Operating Revenue	<u>11,204,042</u>	<u>40,610</u>	<u>11,244,652</u>
Support:			
Contributions	8,001,971	1,728,326	9,730,297
Public Sector Funds	3,332,566	-	3,332,566
In-Kind (Note 10)	511,774	-	511,774
Special Events (Net of Direct Expense of \$491,300 and \$466,520, Respectively)	551,371	-	551,371
Total Support	<u>12,397,682</u>	<u>1,728,326</u>	<u>14,126,008</u>
Net Assets Released from Restrictions (Note 12)	<u>3,487,256</u>	<u>(3,487,256)</u>	<u>-</u>
Total Operating Revenue and Support	27,088,980	(1,718,320)	25,370,660
OPERATING EXPENSES			
Program Services	23,605,258	-	23,605,258
Management and General	2,592,124	-	2,592,124
Fundraising	2,583,882	-	2,583,882
Total Operating Expenses	<u>28,781,264</u>	<u>-</u>	<u>28,781,264</u>
OPERATING INCREASE (DECREASE) IN NET ASSETS			
	(1,692,284)	(1,718,320)	(3,410,604)
NONOPERATING ACTIVITIES			
Contribution of Below Market Interest Rate Debt	106,887	-	106,887
Amortization of Discount on Mortgages	2,163,088	-	2,163,088
Amortization of Discount on Long-Term Notes Payable	(762,390)	-	(762,390)
NONOPERATING INCREASE IN NET ASSETS			
	<u>1,507,585</u>	<u>-</u>	<u>1,507,585</u>
TOTAL INCREASE (DECREASE) IN NET ASSETS			
	(184,699)	(1,718,320)	(1,903,019)
Net Assets - Beginning of Year	<u>33,522,739</u>	<u>7,891,276</u>	<u>41,414,015</u>
NET ASSETS - END OF YEAR	<u>\$ 33,338,040</u>	<u>\$ 6,172,956</u>	<u>\$ 39,510,996</u>

See accompanying Notes to Consolidated Financial Statements.

TWIN CITIES HABITAT FOR HUMANITY, INC.
CONSOLIDATED STATEMENTS OF ACTIVITIES (CONTINUED)
YEARS ENDED JUNE 30, 2019 AND 2018

2018		
Without Donor Restrictions	With Donor Restrictions	Total
\$ 8,095,975	\$ -	\$ 8,095,975
185,673	8,387	194,060
240,831	-	240,831
<u>348,876</u>	<u>39,243</u>	<u>388,119</u>
8,871,355	47,630	8,918,985
12,126,971	4,361,923	16,488,894
2,702,525	-	2,702,525
697,215	-	697,215
<u>228,108</u>	<u>-</u>	<u>228,108</u>
15,754,819	4,361,923	20,116,742
<u>1,938,390</u>	<u>(1,938,390)</u>	<u>-</u>
26,564,564	2,471,163	29,035,727
21,461,627	-	21,461,627
2,181,170	-	2,181,170
<u>2,679,876</u>	<u>-</u>	<u>2,679,876</u>
<u>26,322,673</u>	<u>-</u>	<u>26,322,673</u>
241,891	2,471,163	2,713,054
452,851	-	452,851
2,562,427	-	2,562,427
<u>(782,975)</u>	<u>-</u>	<u>(782,975)</u>
<u>2,232,303</u>	<u>-</u>	<u>2,232,303</u>
2,474,194	2,471,163	4,945,357
<u>31,048,545</u>	<u>5,420,113</u>	<u>36,468,658</u>
<u>\$ 33,522,739</u>	<u>\$ 7,891,276</u>	<u>\$ 41,414,015</u>

See accompanying Notes to Consolidated Financial Statements.

TWIN CITIES HABITAT FOR HUMANITY, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (Decrease) in Net Assets	\$ (1,903,019)	\$ 4,945,357
Adjustments to Reconcile Increase (Decrease) in Net Assets to Net Cash Used by Operating Activities:		
Depreciation	614,979	601,323
In-Kind Contributions of Goods	(447,030)	(570,142)
Discounts on Current-Year Borrowings Under Long-Term Notes Payable	(106,887)	(452,851)
Amortization of Discounts on Mortgages Receivable	(2,163,088)	(2,562,427)
Recognition of Earned Advanced Grant Funds	(333,887)	(788,739)
Origination of Mortgages Held for Sale	(18,996,154)	(13,804,419)
Proceeds from Sale of Mortgages Held for Sale	16,935,725	11,729,319
Amortization of Discount on Long-Term Notes Payable	762,390	782,975
Gain on Sale for Mortgage Servicing Rights	(323,715)	(256,766)
Other	(412,373)	(33,344)
Changes in Operating Assets and Liabilities:		
Accounts Receivable	(351,914)	232,834
Contributions Receivable, Net	1,454,872	(2,137,558)
Leverage Loan Receivable	(3,660,132)	-
Inventory	(589,825)	(1,647,120)
Prepaid and Other Assets	(197,301)	(345,825)
Accounts Payable	(33,446)	87,661
Accrued Expenses	(46,825)	150,024
Unearned Grant Revenue	1,589,142	638,747
Net Cash Used by Operating Activities	(8,208,488)	(3,430,951)
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments Received on Mortgages Held	3,906,165	3,732,810
Purchase of Investments	(39,144)	(22,865)
Purchases of Property and Equipment	(362,340)	(555,800)
Net Cash Provided by Investing Activities	3,504,681	3,154,145
CASH FLOWS FROM FINANCING ACTIVITIES		
Net Proceeds on Line of Credit	4,243,439	2,451,201
Payments on Long-Term Notes Payable	(5,769,071)	(4,129,662)
Borrowings on Long-Term Notes Payable	6,623,085	2,452,500
Net Cash Provided by Financing Activities	5,097,453	774,039
NET INCREASE IN CASH AND CASH EQUIVALENTS	393,646	497,233
Cash and Cash Equivalents - Beginning of Year	5,403,768	4,906,535
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 5,797,414	\$ 5,403,768
SUPPLEMENTARY CASH FLOW INFORMATION		
Interest Paid	\$ 1,046,161	\$ 1,024,647
NONCASH ITEMS		
Inventory and Equipment Contributed by Donors	\$ 511,774	\$ 697,215
Mortgages Received in Exchange for Homes Sold	\$ -	\$ 399,000
Contributions and Pledge Payments of Investment Securities	\$ 472,817	\$ 410,663

See accompanying Notes to Consolidated Financial Statements.

TWIN CITIES HABITAT FOR HUMANITY, INC.
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2019

	Program Services					Support Services			Total All All Services	
	Creating Local and International Homeownership	Financing Homeownership	Preserving Homeownership	ReStores	Community Engagement	Total Program Services	Management and General	Fundraising		Total Support Services
Cost of Production - Cash	\$ 12,438,026	\$ -	\$ 447,368	\$ -	\$ -	\$ 12,885,394	\$ -	\$ -	\$ -	\$ 12,885,394
Cost of Production - In-Kind	716,271	-	56,185	-	-	772,456	-	-	-	772,456
Salaries, Taxes, and Benefits	4,132,617	524,160	796,845	755,861	423,844	6,633,327	1,752,180	1,518,648	3,270,828	9,904,155
Professional Fees	252,314	79,507	26,939	5,461	15,928	380,149	207,906	329,159	537,065	917,214
Printing and Media	3,522	937	3,491	12,114	5,828	25,892	287,305	358,029	645,334	671,226
Postage	9,108	700	1,831	607	1,072	13,318	24,179	26,043	50,222	63,540
Insurance	111,331	27,046	22,042	-	10,725	171,144	23,309	31,813	55,122	226,266
Telephone	43,824	1,194	8,353	3,580	2,009	58,960	4,105	5,457	9,562	68,522
Occupancy	279,176	7,700	75,918	454,649	13,748	831,191	21,679	52,517	74,196	905,387
Vehicle Fleet	55,498	1,673	18,303	31,386	3,798	110,658	4,709	8,566	13,275	123,933
General Supplies, Tools, and Site Supplies	307,165	4,994	38,043	14,919	13,983	379,104	18,009	286,394	304,403	683,507
Equipment Lease and Maintenance	12,611	641	3,070	-	894	17,216	1,804	9,479	11,283	28,499
Meals and Travel	34,132	6,763	8,078	2,844	25,198	77,015	37,456	251,675	289,131	366,146
Staff Development	88,448	12,579	21,877	1,240	14,532	138,676	44,590	31,252	75,842	214,518
Habitat International Tithe and Fees	245,800	-	-	-	-	245,800	-	-	-	245,800
Loan Servicing and Bank Fees	391	202,084	60	46,306	120	248,961	44,183	31,459	75,642	324,603
Miscellaneous	9,390	719	4,173	41,838	575	56,695	3,685	3,345	7,030	63,725
Affordability Gap and Closing Cost Subsidies	-	594,268	-	-	-	594,268	23,703	-	23,703	617,971
Discount Amortization and Interest Expense	183,286	1,497,740	36,288	-	17,656	1,734,970	38,374	52,374	90,748	1,825,718
Depreciation	265,947	19,516	52,408	121,616	25,388	484,875	54,948	75,156	130,104	614,979
Total	\$ 19,188,857	\$ 2,982,221	\$ 1,621,272	\$ 1,492,421	\$ 575,298	\$ 25,860,069	\$ 2,592,124	\$ 3,071,366	\$ 5,663,490	\$ 31,523,559
Operating	\$ 19,188,857	\$ 2,219,831	\$ 1,621,272	\$ -	\$ 575,298	\$ 23,605,258	\$ 2,592,124	\$ 2,583,882	\$ 5,176,006	\$ 28,781,264
Nonoperating - Amortization of Discount on Long-Term Notes Payable	-	762,390	-	-	-	762,390	-	-	-	762,390
Expenses Netted Against Revenues	-	-	-	1,492,421	-	1,492,421	-	487,484	487,484	1,979,905
Total	\$ 19,188,857	\$ 2,982,221	\$ 1,621,272	\$ 1,492,421	\$ 575,298	\$ 25,860,069	\$ 2,592,124	\$ 3,071,366	\$ 5,663,490	\$ 31,523,559
Percentage	60.87 %	9.46 %	5.14 %	4.73 %	1.82 %	82.03 %	8.22 %	9.74 %	17.97 %	100.00 %

See accompanying Notes to Consolidated Financial Statements.

TWIN CITIES HABITAT FOR HUMANITY, INC.
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2018

	Program Services					Support Services			Total All All Services	
	Creating Local and International Homeownership	Financing Homeownership	Preserving Homeownership	ReStores	Community Engagement	Total Program Services	Management and General	Fundraising		Total Support Services
Cost of Production - Cash	\$ 11,590,330	\$ -	\$ 272,743	\$ -	\$ -	\$ 11,863,073	\$ -	\$ -	\$ -	\$ 11,863,073
Cost of Production - In-Kind	648,631	-	45,865	-	-	694,496	-	-	-	694,496
Salaries, Taxes, and Benefits	3,843,339	456,162	605,457	729,473	416,647	6,051,078	1,415,310	1,699,877	3,115,187	9,166,265
Professional Fees	113,785	126,966	20,199	4,113	17,696	282,759	194,763	359,992	554,755	837,514
Printing and Media	745	58	1,284	9,734	2,136	13,957	199,839	258,412	458,251	472,208
Postage	9,615	706	1,404	1,361	1,036	14,122	22,242	34,353	56,595	70,717
Insurance	98,365	11,581	15,697	-	11,131	136,774	18,196	29,806	48,002	184,776
Telephone	41,568	1,080	5,610	3,795	2,089	54,142	3,475	5,634	9,109	63,251
Occupancy	268,151	6,961	64,534	447,217	14,809	801,672	18,613	59,092	77,705	879,377
Vehicle Fleet	56,268	1,229	12,861	42,558	3,777	116,693	3,284	6,811	10,095	126,788
General Supplies, Tools, and Site Supplies	196,450	5,188	42,258	18,154	26,876	288,926	44,049	291,811	335,860	624,786
Equipment Lease and Maintenance	17,296	570	1,777	-	932	20,575	1,542	5,829	7,371	27,946
Meals and Travel	32,492	3,435	5,349	1,981	29,164	72,421	13,992	175,377	189,369	261,790
Staff Development	75,000	9,133	12,291	1,657	12,587	110,668	38,914	33,122	72,036	182,704
Habitat International Tithe and Fees	237,115	-	-	-	-	237,115	-	-	-	237,115
Loan Servicing and Bank Fees	-	154,484	-	41,765	-	196,249	39,733	24,962	64,695	260,944
Miscellaneous	9,582	1,745	5,018	48,383	841	65,569	60,331	22,697	83,028	148,597
Affordability Gap and Closing Cost Subsidies	-	542,647	-	-	-	542,647	22,325	-	22,325	564,972
Discount Amortization and Interest Expense	197,977	1,427,292	31,594	-	22,403	1,679,266	36,623	59,989	96,612	1,775,878
Depreciation	263,505	17,938	41,679	122,159	29,469	474,750	47,939	78,631	126,570	601,320
Total	\$ 17,700,214	\$ 2,767,175	\$ 1,185,620	\$ 1,472,350	\$ 591,593	\$ 23,716,952	\$ 2,181,170	\$ 3,146,395	\$ 5,327,565	\$ 29,044,517
Operating	\$ 17,700,214	\$ 1,984,200	\$ 1,185,620	\$ -	\$ 591,593	\$ 21,461,627	\$ 2,181,170	\$ 2,679,876	\$ 4,861,046	\$ 26,322,673
Nonoperating - Amortization of Discount on Long-Term Notes Payable	-	782,975	-	-	-	782,975	-	-	-	782,975
Expenses Netted Against Revenues	-	-	-	1,472,350	-	1,472,350	-	466,519	466,519	1,938,869
Total	\$ 17,700,214	\$ 2,767,175	\$ 1,185,620	\$ 1,472,350	\$ 591,593	\$ 23,716,952	\$ 2,181,170	\$ 3,146,395	\$ 5,327,565	\$ 29,044,517
Percentage	60.94 %	9.53 %	4.08 %	5.07 %	2.04 %	81.66 %	7.51 %	10.83 %	18.34 %	100.00 %

See accompanying Notes to Consolidated Financial Statements.

TWIN CITIES HABITAT FOR HUMANITY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

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 five 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 are sold to local low-income buyers with affordable mortgages provided by TCHFH Lending Inc. based on households paying no more than 30% of their monthly income for housing costs. The mortgages are profit-free.

Preserving homeownership includes three activities which allow existing homeowners in the community to remain in their home. "A Brush with Kindness" and "Age In Place" programs offer painting and critical remodeling services throughout the metropolitan area, serving low-income, elderly, or disabled homeowners seeking to stay in an affordable home. Volunteers and subcontractors 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.

TCHFH operates two ReStores, which sell donated building materials and supplies to the general public. The ReStores relies significantly on volunteers to staff store operations, providing them with an opportunity to advance the TCHFH mission. Through the activities of the ReStores, TCHFH is also able to divert tons of usable materials from landfills each year. ReStore net sales help fund TCHFH's programs.

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.

TWIN CITIES HABITAT FOR HUMANITY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Consolidation

The consolidated financial statements include the activities of TCHFH Lending, Inc., Twin Cities Habitat for Humanity St. Paul HQ, LLC (TCHFH St. Paul HQ, LLC), and Twin Cities Habitat for Humanity – Community Housing Development Organization, Inc. (CHDO). TCHFH is the sole member of TCHFH Lending, Inc. 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. Twin Cities Habitat for Humanity, Inc. controls the CHDO's board of directors and economic interest exists between the entities. The CHDO had no activity in fiscal year 2019 and 2018 and therefore has not been presented in consolidating schedules.

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

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:

Net Assets Without Donor Restrictions – Resources over which the board of directors has discretionary control.

Net Assets With Donor Restrictions – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

The Organization has elected to present net assets that have no donor-stipulated restrictions, as well as contributions for which donors have stipulated restrictions but which are met with the same reporting period, as without donor-restricted support.

Nonoperating activities include all noncash activities relating to discounting mortgages receivable and debt and contributions for 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 Federal Deposit Insurance Corporation insured limits.

Investments

Investments consist of stocks, mutual funds, and exchange-traded and closed-end funds. They are recorded at fair value.

TWIN CITIES HABITAT FOR HUMANITY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements

In accordance with fair value measurements, the Organization categorizes its assets and liabilities measured at fair value into a three-level hierarchy based on the priority of the inputs to the valuation technique used to determine fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used in the determination of the fair value measurement fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement.

Financial assets and liabilities recorded on the consolidating balance sheets are categorized based on the inputs to the valuation techniques as follows:

Level 1 – Inputs that reflect unadjusted quoted prices in active markets for identical investments, such as stocks, corporate and government bonds. The Organization has the ability to access the holding and quoted prices as of the measurement date.

Level 2 – Inputs, other than quoted prices, that are observable for the asset or liability either directly or indirectly, including inputs from markets that are not considered to be active.

Level 3 – Inputs that are unobservable. Unobservable inputs reflect the Organization's own assumptions about the factors market participants would use in pricing an investment, and is based on the best information available in the circumstances.

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 collectibility 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, 2019 and 2018, 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 from 2014 involving TCHFH St. Paul HQ, LLC, in addition to the leveraged loan that was included as part of the new market tax credit transaction entered into during 2019.

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.

TWIN CITIES HABITAT FOR HUMANITY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Mortgages Receivable (Continued)

Mortgage receivables held with the intention of selling the mortgages are reported as mortgages held for sale on the consolidated balance sheets, while those held without the intention of being sold are reported as mortgages receivable held.

Loans Held for Sale

Mortgages held for sale are mortgages originated with the intent to be sold and are carried at the lower of book or estimated fair value. The Organization has an agreement with one financial institution to purchase the loans at cost. No gain or loss on the loan corpus is recognized on the sale, however a gain may be recognized on the sale related to the servicing rights.

Valuation of Servicing Rights

The Organization recognizes assets for the rights to service loans for others that result from the sale of loans it originates (asset transfers) at fair value in accordance with ASC 860. Servicing rights from asset transfers are initially capitalized and recorded at fair value. The Organization determines the fair value of servicing rights using a valuation model that calculates the present value of estimated future net servicing income. The model incorporates assumptions that market participants use in estimating future net servicing income, including estimates of prepayment speeds (including housing price volatility), discount rate, default rates, cost to service (including delinquency and foreclosure costs) and contractual servicing fee income. Servicing rights are subsequently expensed using the amortization method which requires servicing rights to be amortized in proportion to, and over the period of, the estimated future net servicing income of the underlying loans.

Servicing rights are evaluated for impairment based upon the fair value of the rights as compared to carrying amount. The fair values of servicing rights are subject to significant fluctuations as a result of changes in estimated and actual prepayment speeds and default rates and losses. Impairment is determined by assessing risk characteristics, such as interest rate and loan types. The Organization did not recognize any impairment on servicing rights for the years ended June 30, 2019 and 2018.

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 mortgage loan portfolios. Such evaluations consider historical and current portfolio performance 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.

TWIN CITIES HABITAT FOR HUMANITY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Credit Losses (Continued)

At June 30, 2019, 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 \$69,071 as of June 30, 2019 and 2018.

At June 30, 2019, 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. Donor advised funds (DAF) are controlled by the fund, not the individual donor, so individual pledges from a DAF are not recorded until they are received or pledged from the fund. Receivables are assessed individually for collectibility 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, 2019 and 2018, the allowance for doubtful accounts was \$45,078.

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.

Land Held in Trust

Land held in trust represents the cost basis of land for homes sold where the land that the home is built upon is placed in a land trust to be held for a period of 99 years.

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 without donor restriction. Depreciation of property and equipment is computed on a straight-line basis over the estimated useful lives of the assets.

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.

TWIN CITIES HABITAT FOR HUMANITY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Home Sales

Nearly all sales to homeowners have been financed by TCHFH or its subsidiary TCHFH Lending, Inc. and are recorded when title is transferred. The amount of the first mortgage for homes TCHFH developed is classified as operating revenues and the related discount is recorded at the same time as nonoperating activity. The first mortgage amount is classified as operating revenues and the related discount is recorded at the same time as a nonoperation 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. Interest-bearing mortgages are evaluated at inception for potential discount. Interest-bearing mortgages have been deemed to be at a market rate thus far and no discount has been recognized on these mortgages.

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 unconditional contributions are recorded as revenue as they are received.

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

Unearned Grant Revenue

Advance payments received on certain public sector funds are recorded as unearned grant revenue until the conditions of the grant agreement have been met, at which time the payments received are recognized as revenue.

Income Taxes

The Organization, the CHDO and TCHFH Lending, Inc. 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 Lending, Inc. is a supporting organization of the Organization. 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.

TWIN CITIES HABITAT FOR HUMANITY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. Expenses that are not directly identifiable by program or support service that are allocated based on personnel time spent on the activity include certain professional fees, tools and site supplies, and occupancy costs including rent, maintenance and utilities. Depreciation expenses are allocated based on personnel costs specifically related to the utilization of property and equipment assets.

Estimates

Management uses estimates and assumptions in preparing consolidated 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.

Change in Accounting Principle

On August 18, 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses. The Organization has implemented ASU 2016-14 and has applied retrospectively to all periods presented.

Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying consolidated financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported net assets.

Subsequent Events

In preparing these consolidated financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through November 14, 2019, the date the consolidated financial statements were available to be issued.

TWIN CITIES HABITAT FOR HUMANITY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 2 CONTRIBUTIONS RECEIVABLE

The present value of the contributions receivable were summarized as follows at June 30:

	<u>2019</u>	<u>2018</u>
Gross Contributions Receivable	\$ 4,902,675	\$ 6,432,065
Less: Allowance for Doubtful Accounts	(45,078)	(45,078)
Less: Present Value Discount - 3%	(117,983)	(192,501)
Net Contributions Receivable	<u>\$ 4,739,614</u>	<u>\$ 6,194,486</u>
Amounts Due in:		
Less Than One Year	\$ 2,414,563	\$ 2,583,092
One to Five Years	2,488,112	3,848,973
Total	<u>\$ 4,902,675</u>	<u>\$ 6,432,065</u>

At June 30, 2019 and 2018, two contributors comprised 23% and 24%, respectively, of the contributions receivable.

NOTE 3 INVENTORY

Inventory consists of the following at June 30:

	<u>2019</u>	<u>2018</u>
Homes in Progress	\$ 6,539,994	\$ 4,241,997
Land and Acquired Property	6,332,251	7,385,316
Building Material	439,718	483,450
Held for Resale	221,074	289,215
Total Inventory	<u>\$ 13,533,037</u>	<u>\$ 12,399,978</u>

NOTE 4 PROPERTY AND EQUIPMENT

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

	<u>2019</u>		
	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Life</u>
Land	\$ 1,593,192	\$ -	N/A
Buildings and Improvements	8,056,325	1,435,078	5 to 39 Years
Furniture and Equipment	2,411,812	1,928,547	5 to 7 Years
Vehicles	659,530	459,722	3 to 5 Years
Total	<u>\$ 12,720,859</u>	<u>\$ 3,823,347</u>	
Property and Equipment, Net	<u>\$ 8,897,512</u>		

TWIN CITIES HABITAT FOR HUMANITY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 4 PROPERTY AND EQUIPMENT (CONTINUED)

	2018		Life
	Cost	Accumulated Depreciation	
Land	\$ 1,527,605	\$ -	N/A
Buildings and Improvements	8,005,059	1,149,948	5 to 39 Years
Furniture and Equipment	2,313,200	1,670,511	5 to 7 Years
Vehicles	566,855	442,109	3 to 5 Years
Total	<u>\$ 12,412,719</u>	<u>\$ 3,262,568</u>	
Property and Equipment, Net		<u>\$ 9,150,151</u>	

NOTE 5 LEVERAGED LOANS RECEIVABLE

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

<u>Description</u>	<u>2019</u>	<u>2018</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.	2,766,900	2,766,900
Investment in Leveraged Lender, 0.694151%, Due in interest-only installments through May 5, 2025, Commencing August 23, 2025 due in semi-annual installments of \$38,120 with principal due on August 22, 2048.	<u>3,660,132</u>	<u>-</u>
Total	<u>\$ 10,127,032</u>	<u>\$ 6,466,900</u>

The loans are secured by substantially all assets of the borrower. As of June 30, 2019 and 2018, 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.

TWIN CITIES HABITAT FOR HUMANITY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 6 MORTGAGES RECEIVABLE

An Organization-developed home is considered sold when a formal closing transaction has been finalized. Homes are priced 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, 2019 and 2018, the Organization had 823 and 847 mortgages outstanding, respectively.

When the first mortgage on each home is less than the market value, the Organization also provides 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 unless such mortgage becomes collectible in accordance with the terms of the mortgage agreement.

The Organization has two portfolios of mortgages receivable outstanding: loans held by the Organization and loans held for sale. The mortgages receivable within the held portfolio primarily consist of no-interest first mortgages provided on homes that the Organization developed and sold to homebuyers through October 2016. The mortgages receivable held for sale portfolio includes interest-bearing first mortgages originated since November 2016 by TCHFH Lending Inc. with intent to sell to outside partner investors. These mortgages are originated to homebuyers purchasing a home developed by the Organization as well as mortgages provided to homebuyers purchasing a home on the open market.

The outstanding mortgages receivable held for sale portfolio is \$5,393,223 and \$3,361,787 at June 30, 2019 and 2018, respectively. This portfolio has no delinquent mortgages and is considered to be fully collectible within the coming year, so the Organization has not recorded an allowance or discount on the mortgages receivable held for sale portfolio as of June 30, 2019 and 2018.

For the held portfolio, the mortgage loans receivable are noninterest-bearing mortgages. At June 30, the composition of mortgages receivable held is as follows:

	<u>2019</u>	<u>2018</u>
Mortgages Receivable Held	\$ 58,922,701	\$ 63,055,069
Less: Unamortized Discount	(20,695,448)	(22,858,535)
Less: Allowance for Credit Losses	(69,071)	(69,071)
Total	<u>\$ 38,158,182</u>	<u>\$ 40,127,463</u>

The held 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 8.53% based on prevailing market rates in the year the mortgage originated. These original discounts and related amortization are reflected as a nonoperating activity in the consolidated statement of activities.

TWIN CITIES HABITAT FOR HUMANITY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 6 MORTGAGES RECEIVABLE (CONTINUED)

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

	<u>2019</u>	<u>2018</u>
Allowance for Credit Losses:		
Balance at Beginning of the Year	\$ 69,071	\$ 75,878
Provision for Loan Losses	-	-
Loans Charged-Off	-	(6,807)
Recoveries on Sales of Loans	-	-
Balance at End of Year	<u>\$ 69,071</u>	<u>\$ 69,071</u>

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

	<u>2019</u>			
	<u>Current</u>	<u>30-89 Days Past Due</u>	<u>90 Days or More Past Due</u>	<u>Total</u>
Mortgages Receivable	\$ 55,979,210	\$ 1,647,314	\$ 1,296,177	\$ 58,922,701

	<u>2018</u>			
	<u>Current</u>	<u>30-89 Days Past Due</u>	<u>90 Days or More Past Due</u>	<u>Total</u>
Mortgages Receivable	\$ 61,002,735	\$ 924,164	\$ 1,128,170	\$ 63,055,069

TWIN CITIES HABITAT FOR HUMANITY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 7 LONG-TERM NOTES PAYABLE

Long-term notes payable consists of the following as of June 30:

<u>Description</u>	<u>2019</u>	<u>2018</u>
<i>Interest-Bearing Notes:</i>		
Notes Payable, 3%, Secured by Specifically Identified Mortgages Receivable, Due in Monthly Installments of \$2,841 with Maturity Dates from September 1, 2018 to January 1, 2020 (a)	\$ 19,689	\$ 63,721
Note Payable, 1%, Secured by Specifically Identified Mortgages Receivable, Due in Monthly Installments of \$1,738 through March 1, 2022 (a)	56,560	76,745
Note Payable, 2.83%, Secured by Specifically Identified Mortgages Receivable, Due in Monthly Installments of \$88,977 through September 1, 2040 (a)	13,981,099	14,642,658
Note Payable, 4.25%, Secured by Specific Mortgages Receivable, Due in Monthly Installments of \$7,683 through July 1, 2023	347,316	422,771
Note Payable, 2.99%, Secured by Specifically Identified Mortgages Receivable, Due in Monthly Installments of \$4,491 through February 1, 2019	-	35,533
Note Payable, 3%, Unsecured, Due in Quarterly Interest-Only Installments of \$9,750 with Principal Balance Due in Full on October 1, 2022	1,300,000	800,000
Note Payable, 3.75%, Secured by specifically identified mortgages receivable, Due in monthly installments of \$7,505 through May 1, 2021	166,578	248,603
Note Payable, 2%, Unsecured, Due in quarterly interest-only installments of \$5,000 with principal balance due on April 4, 2021	1,000,000	1,000,000
Note Payable, 1.43%, Unsecured, Annual interest-only payments of \$14,300 with principal balance due on July 14, 2025	1,000,000	1,000,000
Note Payable, 2%, Unsecured, Annual interest-only payments of \$20,000 with principal balance due on December 20, 2019	1,000,000	1,000,000
Note Payable, 2.99%, Secured by specifically identified mortgages receivable, Due in monthly installments of \$4,491 through February 1, 2020	35,532	87,490
Note Payable, 3.40%, Secured by specifically identified mortgages receivable, Due in monthly installments of \$4,540 through March 1, 2022	142,720	191,361

**TWIN CITIES HABITAT FOR HUMANITY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 7 LONG-TERM NOTES PAYABLE (CONTINUED)

<u>Description</u>	<u>2019</u>	<u>2018</u>
<i>Interest-Bearing Notes (Continued):</i>		
Note Payable, 4%, Secured by specifically identified mortgages receivable, Due in monthly installments of installments of \$7,593 through July 1, 2022	\$ 264,627	\$ 343,270
Note Payable, 3%, Secured by specifically identified mortgages receivable. Due in monthly installments of \$3,557 with principal balance due on April 1, 2042 (a)	699,429	720,777
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
Note Payable, 1.5%, Unsecured, Quarterly interest-only payments of \$3,750 with principal balance due on January 31, 2028	1,000,000	1,000,000
Note Payable, 2.86%, 2.55% and 2.38% based on date of when funds were drawn, Unsecured, Annual interest-only payments of \$22,880 with principal balance due on September 30, 2025	<u>800,000</u>	<u>-</u>
Subtotal - Interest-Bearing Notes	21,813,550	25,332,929
<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
QLICI Note Payable, 0.694151%, Secured by notes receivable of \$3,660,132, Due in semi-annual interest-only installments of \$18,410 through May 5, 2025. Due in semi-annual principal and interest installments through August 22, 2048	<u>5,304,335</u>	<u>-</u>
Subtotal - Qualified Low Income Community Investment Notes	14,424,335	9,120,000

TWIN CITIES HABITAT FOR HUMANITY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 7 LONG-TERM NOTES PAYABLE (CONTINUED)

<u>Description</u>	<u>2019</u>	<u>2018</u>
<i>Noninterest 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 \$68,938 with Balances Due through June 1, 2043 (a)	\$ 9,186,966	\$ 10,009,060
Notes Payable, Noninterest-bearing, Unsecured, Due in Monthly Installments to Habitat for Humanity International for the SHOP program over 48 months (b)	151,206	241,388
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	12,000	24,000
Note Payable, Noninterest-bearing, Unsecured, Amount Due in Yearly Installments of \$6,667 through January 1, 2036	<u>113,329</u>	<u>119,996</u>
Subtotal - Noninterest Bearing Notes	9,463,501	10,394,444
<i>Forgivable Notes:</i>		
Note Payable, Noninterest-bearing, Unsecured, No Payments Required, Forgiven on August 28, 2019 Contingent on Specific Requirements Being Met	-	110,000
Note Payable, Noninterest-bearing, Unsecured, No Payments Required, Forgiven on January 31, 2019 Contingent on Specific Requirements Being Met	-	70,000
Note Payable, Noninterest-bearing, Unsecured, No Payments Required, Forgivable on January 31, 2023 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	<u>523,273</u>	<u>523,273</u>
Subtotal - Forgivable Notes	<u>603,273</u>	<u>783,273</u>
Total	46,304,659	45,630,646
Less: Unamortized Discount	(5,149,735)	(5,743,298)
Less: Unamortized Origination Fees	<u>(681,655)</u>	<u>(444,961)</u>
Long-Term Notes Payable, Net	<u>\$ 40,473,269</u>	<u>\$ 39,442,387</u>

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

TWIN CITIES HABITAT FOR HUMANITY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

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>
2020	\$ 6,748,513	\$ -
2021	3,238,475	-
2022	2,118,650	-
2023	3,304,240	80,000
2024	1,937,869	-
Thereafter	28,353,639	523,273
Total	<u>\$ 45,701,386</u>	<u>\$ 603,273</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 nonoperating activity in the consolidated statement of activities.

Certain note payable agreements required the Organization to meet certain financial and other covenants of which they were in compliance as of June 30, 2019 or have obtained a waiver.

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.

In August 2018, the Organization participated in a NMTC program. The program provides tax credits to eligible organizations for investment in “qualified low-income community investments”. Program compliance requirements included creation of a promissory note and investment in a qualified community development activity (CDE). Tax credit recapture is required if compliance requirements are not met over a seven-year period.

**TWIN CITIES HABITAT FOR HUMANITY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 7 LONG-TERM NOTES PAYABLE (CONTINUED)

New Market Tax Credit Financing (Continued)

The Organization originally recorded its 24.44% investment in Twain Investment Fund 306, LLC at the cost of \$3,691,733. The Organization's corresponding note payable is \$5,304,335, consisting of one QLICI loan. In August 2025, under the terms of the put option agreement, the put option will be exercised. Exercise of the option will effectively allow the Organization to extinguish its outstanding debt owed to the Fund.

NOTE 8 LINE OF CREDIT

The Organization had a revolving line of credit, which was closed in August 2018 that permitted borrowings up to \$500,000. Interest was calculated at 2.85% plus the one-month LIBOR rate. There was no outstanding balance as of June 30, 2019 and 2018.

The Organization had a second revolving line of credit, which was closed in August 2018 that permitted borrowings up to \$2,500,000. Interest was calculated at 2.85% plus the one-month LIBOR rate. The agreement was secured by multi-year donation pledges. There was no outstanding balance as of June 30, 2019 and 2018.

The Organization has two lines of credit with interest rates ranging from 1.00% to the Prime rate less 1.50%, never to drop below 3.25%. One revolving line of credit, which expires in June 2028, permits borrowings up to \$25,000,000. The agreement is unsecured. There was an outstanding balance of \$2,625,000 and \$-0- as of June 30, 2019 and 2018, respectively. The Organization's subsidiary, TCHFH Lending, Inc., has a warehouse line of credit to borrow up to \$5,000,000. The line of credit expires in April 2020. The agreement is secured by mortgage loans in transit. As of June 30, 2019 and 2018, there is an outstanding balance of \$4,317,389 and \$2,698,950, respectively.

NOTE 9 LEASES

The Organization leases a warehouse facility, office space for the Homebuyer Program and Mortgage Foreclosure Prevention Program, and two outlet stores under noncancelable 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, 2019 and 2018 was \$567,579 and \$560,353, respectively.

Minimum lease payments for operating leases in future years are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2020	\$ 379,227
2021	383,275
2022	257,532
2023	152,027
Total Minimum Lease Payments	<u>\$ 1,172,061</u>

TWIN CITIES HABITAT FOR HUMANITY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 10 IN-KIND CONTRIBUTIONS

In-kind contributions consisted of the following for the years ended June 30:

	<u>2019</u>	<u>2018</u>
Land and Building Materials	\$ 29,523	\$ 186,281
Tools and Equipment	417,507	383,861
Specialized Labor	64,744	127,073
Subtotal In-Kind Contributions	<u>511,774</u>	<u>697,215</u>
Special Event Donated Material	154,729	174,170
Total In-Kind Contributions	<u>\$ 666,503</u>	<u>\$ 871,385</u>

In-kind contributions were expended as follows for the years ended June 30:

	<u>2019</u>	<u>2018</u>
Cost of Homes Sold	\$ 772,456	\$ 694,496
Specialized Labor and Services	64,744	127,073
Materials and Equipment	417,507	383,861
Special Event Direct Benefits	154,729	174,170
Total In-Kind Expenses	<u>\$ 1,409,436</u>	<u>\$ 1,379,600</u>

The difference between revenue and expense is due to in-kind contributions that are either held in inventory or expensed out of 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 \$163,001 and \$135,207 for the years ended June 30, 2019 and 2018, respectively.

NOTE 12 NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are available for the following purposes at June 30:

	<u>2019</u>	<u>2018</u>
Time Restricted Pledges	\$ 4,739,614	\$ 6,194,486
Restricted for Program Purposes	640,954	945,012
Unappropriated Endowment Earnings	127,025	86,415
Endowment to be Held in Perpetuity	665,363	665,363
Total	<u>\$ 6,172,956</u>	<u>\$ 7,891,276</u>

**TWIN CITIES HABITAT FOR HUMANITY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 12 NET ASSETS WITH DONOR RESTRICTIONS (CONTINUED)

Net assets released from restriction consist of the following at June 30:

	2019	2018
Net Pledges Received	\$ 2,606,465	\$ 1,381,932
Program Expenditures Incurred	880,791	556,458
Total Releases from Restriction	\$ 3,487,256	\$ 1,938,390

NOTE 13 ENDOWMENT

Donor-Restricted Endowments

During the year ended June 30, 2004, the Organization received a \$665,363 foundation contribution that was perpetually restricted for endowment purposes. 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:

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor Restricted Endowment Funds	\$ -	\$ 792,388	\$ 792,388
	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor Restricted Endowment Funds	\$ -	\$ 751,778	\$ 751,778

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

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment Fund Balance, June 30, 2018	\$ -	\$ 751,778	\$ 751,778
Contributions	-	-	-
Investment Income	-	40,610	40,610
Appropriations	-	-	-
Endowment Fund Balance, June 30, 2019	\$ -	\$ 792,388	\$ 792,388

**TWIN CITIES HABITAT FOR HUMANITY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 13 ENDOWMENT (CONTINUED)

Donor-Restricted Endowments (Continued)

	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment Fund Balance, June 30, 2017	\$ -	\$ 712,535	\$ 712,535
Contributions	-	-	-
Investment Income	-	39,243	39,243
Appropriations	-	-	-
Endowment Fund Balance, June 30, 2018	<u>\$ -</u>	<u>\$ 751,778</u>	<u>\$ 751,778</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, we retain in perpetuity (a) the original value of initial and subsequent gift amounts (including promises to give net of discount and allowance for doubtful accounts including promises to give at fair value) donated to the Endowment and (b) any accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure by us 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 endowment principal. Unappropriated earnings for the fiscal years 2009 - 2018 total \$127,025.

TWIN CITIES HABITAT FOR HUMANITY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 14 INVESTMENTS

Investments at market value consisted of the following at June 30:

	2019	2018
Mutual Funds	\$ 380,479	\$ 355,745
Stocks	333,766	323,003
Exchange-Traded and Closed-End Funds	66,253	62,606
Total	\$ 780,498	\$ 741,354

NOTE 15 FAIR VALUE HIERARCHY

The following table presents the fair value hierarchy for the balances of financial assets and liabilities the Organization measured at fair value on a recurring basis as of June 30:

	2019			Total
	Level 1	Level 2	Level 3	
Mutual Funds	\$ 380,479	\$ -	\$ -	\$ 380,479
Stocks	333,766	-	-	333,766
Exchange-Traded and Closed-End Funds	66,253	-	-	66,253
Total	\$ 780,498	\$ -	\$ -	\$ 780,498

	2018			Total
	Level 1	Level 2	Level 3	
Mutual Funds	\$ 355,745	\$ -	\$ -	\$ 355,745
Stocks	323,003	-	-	323,003
Exchange-Traded and Closed-End Funds	62,606	-	-	62,606
Total	\$ 741,354	\$ -	\$ -	\$ 741,354

NOTE 16 MORTGAGE SERVICING RIGHTS

The Organization's subsidiary, TCHFH Lending Inc., has mortgage servicing rights on mortgages that it originated and sold with servicing retained. The value of these rights was \$523,212 and \$256,766 as of June 30, 2019 and 2018, respectively. The servicing asset for June 30, 2019 was determined using a weighted-average note rate of 2.93%, discount rate of 14.50%, and conditional prepayment rate of 5.50%.

The following revenues related to servicing rights are recognized as Other Revenue during the years ended June 30:

	2019	2018
Servicing Fees Earned	\$ 107,520	\$ 35,375
Gain on Loan Sales	323,715	256,766
Amortization of Servicing Assets	(57,269)	-

TWIN CITIES HABITAT FOR HUMANITY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 16 MORTGAGE SERVICING RIGHTS (CONTINUED)

Activity for servicing rights under the amortization method is as follows for the years ended June 30:

	<u>2019</u>	<u>2018</u>
Balance at Beginning of the Year	\$ 256,766	\$ -
Additions	323,715	256,766
Impairment	-	-
Amortization	<u>(57,269)</u>	<u>-</u>
Balance at End of the Year	<u>\$ 523,212</u>	<u>\$ 256,766</u>

NOTE 17 LIQUIDITY AND AVAILABILITY

The Organization strives to maintain liquid financial assets sufficient to cover 90 days of general expenses. The Organization regularly monitors the liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the return on its available funds. The Organization has a few sources of liquidity at its disposal, including cash and cash equivalents and lines of credit. See note 8 for information about the Organization's lines of credit.

For purposes of analyzing resources available to meet general expenses over a 12-month period, the Organization considers all expenses related to its ongoing program and support activities to be general expenses. If assets are not available to meet current operating needs, then they are not included in our analysis below. Inventory and Mortgages held for resale are not included in our analysis because they require the Organization to sell the assets.

In addition to financial assets available to meet general expenses over the next 12 months, the Organization operates within its budget and anticipates collecting sufficient funding to cover general expenses not covered by donor-restricted resources.

As of June 30, 2019 and 2018, the following financial assets could readily be made available within one year of the balance sheet date to meet general expenses:

	<u>2019</u>	<u>2018</u>
Available Assets		
Cash and Cash Equivalents	\$ 5,797,414	\$ 5,403,768
Accounts Receivable	1,047,330	695,416
Contributions Receivable, Due in One Year	2,414,563	2,583,092
Mortgages Held, Due in One Year	<u>3,360,000</u>	<u>3,415,000</u>
	12,619,307	12,097,276
Other Balances		
Less: Restricted Cash Accounts	(221,931)	-
Less: Restricted Receipts Not Yet Spent	<u>(596,733)</u>	<u>(900,791)</u>
Total Available Assets, Net	<u>\$ 11,800,643</u>	<u>\$ 11,196,485</u>
Line of Credit Balances Available for General Operations	<u>\$ 27,275,000</u>	<u>\$ 29,200,000</u>

TWIN CITIES HABITAT FOR HUMANITY, INC.
CONSOLIDATING BALANCE SHEET
JUNE 30, 2019

ASSETS	Twin Cities Habitat for Humanity, Inc.	Lending, Inc.	TCHFH St. Paul HQ, LLC	Eliminations	Consolidated
Cash and Cash Equivalents	\$ 5,100,235	\$ 528,525	\$ 168,654	\$ -	\$ 5,797,414
Investments	780,498	-	-	-	780,498
Accounts Receivable	1,039,178	8,152	-	-	1,047,330
Mortgage Servicing Asset, Net	-	523,212	-	-	523,212
Contributions Receivable, Net	4,739,614	-	-	-	4,739,614
Related Entity Receivable	1,615,442	-	-	(1,615,442)	-
Inventory	13,533,037	-	-	-	13,533,037
Land Held in Trust	859,719	-	-	-	859,719
Prepaid and Other Assets	609,754	14,356	-	-	624,110
Leveraged Loans Receivable	10,127,032	-	-	-	10,127,032
Property and Equipment, Net	1,206,795	-	8,069,760	(379,043)	8,897,512
Mortgages Receivable:					
Mortgages Receivable Held, at Face Value	58,922,701	-	-	-	58,922,701
Mortgages Receivable Held for Sale, at Face Value	-	5,393,223	-	-	5,393,223
Less: Unamortized Discount and Allowance	(20,764,519)	-	-	-	(20,764,519)
Mortgages Receivable, Net	<u>38,158,182</u>	<u>5,393,223</u>	<u>-</u>	<u>-</u>	<u>43,551,405</u>
 Total Assets	 <u>\$ 77,769,486</u>	 <u>\$ 6,467,468</u>	 <u>\$ 8,238,414</u>	 <u>\$ (1,994,485)</u>	 <u>\$ 90,480,883</u>
 LIABILITIES AND NET ASSETS					
LIABILITIES					
Accounts Payable	\$ 799,868	\$ 21,755	\$ -	\$ -	\$ 821,623
Accrued Expenses	821,010	-	17,594	-	838,604
Related Entity Payable	-	1,603,324	12,118	(1,615,442)	-
Line of Credit	2,625,000	4,317,389	-	-	6,942,389
Unearned Grant Revenue	1,894,002	-	-	-	1,894,002
Long-Term Notes Payable:					
Long-Term Notes Payable at Face Value	37,184,659	-	9,120,000	-	46,304,659
Less: Unamortized Discount and Origination Fees	(5,831,390)	-	-	-	(5,831,390)
Long-Term Notes Payable, Net	<u>31,353,269</u>	<u>-</u>	<u>9,120,000</u>	<u>-</u>	<u>40,473,269</u>
 Total Liabilities	 37,493,149	 5,942,468	 9,149,712	 (1,615,442)	 50,969,887
 NET ASSETS					
Without Donor Restrictions	34,103,381	525,000	(911,298)	(379,043)	33,338,040
With Donor Restrictions	6,172,956	-	-	-	6,172,956
Total Net Assets	<u>40,276,337</u>	<u>525,000</u>	<u>(911,298)</u>	<u>(379,043)</u>	<u>39,510,996</u>
 Total Liabilities and Net Assets	 <u>\$ 77,769,486</u>	 <u>\$ 6,467,468</u>	 <u>\$ 8,238,414</u>	 <u>\$ (1,994,485)</u>	 <u>\$ 90,480,883</u>

**TWIN CITIES HABITAT FOR HUMANITY, INC.
CONSOLIDATING STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2019**

	Twin Cities Habitat for Humanity, Inc.		Lending, Inc.	TCHFH St. Paul HQ, LLC	Eliminations	Consolidated	
	Without Donor Restrictions	With Donor Restrictions	Without Donor Restrictions	Without Donor Restrictions		Without Donor Restrictions	With Donor Restrictions
OPERATING REVENUE AND SUPPORT							
Operating Revenue:							
Home Sales (Mortgages Received)	\$ 10,114,361	\$ -	\$ -	\$ -	\$ -	\$ 10,114,361	\$ -
Interest Income	212,644	40,610	41,971	-	-	254,615	40,610
ReStore Sales (Net of Direct Expense of \$1,492,421)	313,346	-	-	-	-	313,346	-
Service and Other Revenue from Related Entity	107,253	-	314,118	-	(421,371)	-	-
Other	147,755	-	373,965	240,000	(240,000)	521,720	-
Total Operating Revenue	10,895,359	40,610	730,054	240,000	(661,371)	11,204,042	40,610
Support:							
Contributions	8,001,971	1,728,326	-	-	-	8,001,971	1,728,326
Public Sector Funds	3,332,566	-	-	-	-	3,332,566	-
Contribution from Related Entity	-	-	374,362	-	(374,362)	-	-
In-Kind	511,774	-	-	-	-	511,774	-
Special Events (Net of Direct Expense of \$491,300)	551,371	-	-	-	-	551,371	-
Total Support	12,397,682	1,728,326	374,362	-	(374,362)	12,397,682	1,728,326
Net Assets Released from Restrictions	3,487,256	(3,487,256)	-	-	-	3,487,256	(3,487,256)
Total Operating Revenue and Support	26,780,297	(1,718,320)	1,104,416	240,000	(1,035,733)	27,088,980	(1,718,320)
OPERATING EXPENSES							
Program Services	23,243,779	-	874,594	425,658	(938,773)	23,605,258	-
Management and General	2,540,740	-	69,822	65,114	(83,552)	2,592,124	-
Fundraising	2,536,045	-	-	88,868	(41,031)	2,583,882	-
Total Operating Expenses	28,320,564	-	944,416	579,640	(1,063,356)	28,781,264	-
OPERATING INCREASE (DECREASE) IN NET ASSETS	(1,540,267)	(1,718,320)	160,000	(339,640)	27,623	(1,692,284)	(1,718,320)
NONOPERATING ACTIVITIES							
Contribution of Below Market Interest Rate Debt	106,887	-	-	-	-	106,887	-
Amortization of Discount on Mortgages	2,163,088	-	-	-	-	2,163,088	-
Amortization of Discount on Long-Term Notes Payable	(762,390)	-	-	-	-	(762,390)	-
NONOPERATING INCREASE IN NET ASSETS	1,507,585	-	-	-	-	1,507,585	-
TOTAL INCREASE (DECREASE) IN NET ASSETS	(32,682)	(1,718,320)	160,000	(339,640)	27,623	(184,699)	(1,718,320)
Net Assets - Beginning of Year	34,136,063	7,891,276	365,000	(571,658)	(406,666)	33,522,739	7,891,276
NET ASSETS - END OF YEAR	\$ 34,103,381	\$ 6,172,956	\$ 525,000	\$ (911,298)	\$ (379,043)	\$ 33,338,040	\$ 6,172,956