

TWIN CITIES HABITAT FOR HUMANITY, INC.

**CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

YEARS ENDED JUNE 30, 2018 AND 2017

**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, 2018 and 2017, 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, 2018 and 2017, 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 13, 2018

TWIN CITIES HABITAT FOR HUMANITY, INC.
CONSOLIDATED BALANCE SHEETS
JUNE 30, 2018 AND 2017

ASSETS	2018	2017
Cash and Cash Equivalents	\$ 5,403,768	\$ 4,906,535
Investments	741,354	697,015
Accounts Receivable	695,416	928,250
Contributions Receivable, Net (Note 2)	6,194,486	4,075,286
Inventory (Note 3)	12,399,978	9,105,625
Prepaid and Other Assets	1,413,294	810,703
Leveraged Loans Receivable (Note 5)	6,466,900	6,466,900
Property and Equipment, Net (Note 4)	9,150,151	9,214,933
Mortgages Receivable (Note 6):		
Mortgages Receivable Held, at Face Value	63,055,069	67,871,778
Mortgages Receivable Held for Sale, at Face Value	3,361,787	1,293,400
Less: Unamortized Discount and Allowance	(22,927,606)	(25,496,841)
Mortgages Receivable, Net	43,489,250	43,668,337
 Total Assets	 \$ 85,954,597	 \$ 79,873,584
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable	\$ 855,069	\$ 767,408
Accrued Expenses	905,429	775,405
Line of Credit (Note 8)	2,698,950	247,749
Long-Term Notes Payable (Note 7):		
Long-Term Notes Payable, at Face Value	46,269,393	48,096,547
Less: Unamortized Discount and Origination Fees	(6,188,259)	(6,482,183)
Long-Term Notes Payable, Net	40,081,134	41,614,364
 Total Liabilities	 44,540,582	 43,404,926
NET ASSETS		
Unrestricted	33,522,739	31,048,545
Temporarily Restricted (Note 12)	7,225,913	4,754,750
Permanently Restricted (Note 13)	665,363	665,363
Total Net Assets	41,414,015	36,468,658
 Total Liabilities and Net Assets	 \$ 85,954,597	 \$ 79,873,584

See accompanying Notes to Consolidated Financial Statements.

**TWIN CITIES HABITAT FOR HUMANITY, INC.
CONSOLIDATED STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2018 AND 2017**

	2018			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
OPERATING REVENUE AND SUPPORT				
Operating Revenue:				
Home Sales (Mortgages Received)	\$ 8,095,975	\$ -	\$ -	\$ 8,095,975
Interest Income	185,673	8,387	-	194,060
ReStore Sales (Net of Direct Expense of \$1,593,282 and \$1,247,436, Respectively)	119,904	-	-	119,904
Other	348,876	39,243	-	388,119
Total Operating Revenue	<u>8,750,428</u>	<u>47,630</u>	<u>-</u>	<u>8,798,058</u>
Support:				
Contributions	12,126,971	4,361,923	-	16,488,894
Public Sector Funds	2,702,525	-	-	2,702,525
In-Kind (Note 10)	697,215	-	-	697,215
Special Events (Net of Direct Expense of \$466,520 and \$343,465)	228,108	-	-	228,108
Total Support	<u>15,754,819</u>	<u>4,361,923</u>	<u>-</u>	<u>20,116,742</u>
Net Assets Released from Restrictions (Note 12)	<u>1,938,390</u>	<u>(1,938,390)</u>	<u>-</u>	<u>-</u>
Total Operating Revenue and Support	<u>26,443,637</u>	<u>2,471,163</u>	<u>-</u>	<u>28,914,800</u>
OPERATING EXPENSES				
Program Services	22,934,725	-	-	22,934,725
Management and General	877,790	-	-	877,790
Fundraising	2,389,231	-	-	2,389,231
Total Operating Expenses	<u>26,201,746</u>	<u>-</u>	<u>-</u>	<u>26,201,746</u>
OPERATING INCREASE (DECREASE) IN NET ASSETS				
	241,891	2,471,163	-	2,713,054
NONOPERATING ACTIVITIES				
Contribution of Below Market Interest Rate Debt	452,851	-	-	452,851
Home Sales Mortgage Discount	-	-	-	-
Amortization of Discount on Mortgages	2,562,427	-	-	2,562,427
Amortization of Discount on Long-Term Notes Payable	<u>(782,975)</u>	<u>-</u>	<u>-</u>	<u>(782,975)</u>
NONOPERATING INCREASE (DECREASE) IN NET ASSETS				
	<u>2,232,303</u>	<u>-</u>	<u>-</u>	<u>2,232,303</u>
TOTAL INCREASE (DECREASE) IN NET ASSETS				
	2,474,194	2,471,163	-	4,945,357
Net Assets - Beginning of Year	<u>31,048,545</u>	<u>4,754,750</u>	<u>665,363</u>	<u>36,468,658</u>
NET ASSETS - END OF YEAR	<u><u>\$ 33,522,739</u></u>	<u><u>\$ 7,225,913</u></u>	<u><u>\$ 665,363</u></u>	<u><u>\$ 41,414,015</u></u>

See accompanying Notes to Consolidated Financial Statements.

2017

Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 4,420,980	\$ -	\$ -	\$ 4,420,980
180,327	-	-	180,327
193,281	-	-	193,281
4,009	21,355	-	25,364
<u>4,798,597</u>	<u>21,355</u>	<u>-</u>	<u>4,819,952</u>
8,523,914	4,455,975	-	12,979,889
1,738,538	-	-	1,738,538
1,182,506	-	-	1,182,506
322,431	-	-	322,431
<u>11,767,389</u>	<u>4,455,975</u>	<u>-</u>	<u>16,223,364</u>
1,034,818	(1,034,818)	-	-
17,600,804	3,442,512	-	21,043,316
14,778,774	-	-	14,778,774
764,470	-	-	764,470
2,292,339	-	-	2,292,339
<u>17,835,583</u>	<u>-</u>	<u>-</u>	<u>17,835,583</u>
(234,779)	3,442,512	-	3,207,733
310,696	-	-	310,696
(193,945)	-	-	(193,945)
2,423,210	-	-	2,423,210
<u>(777,796)</u>	<u>-</u>	<u>-</u>	<u>(777,796)</u>
<u>1,762,165</u>	<u>-</u>	<u>-</u>	<u>1,762,165</u>
1,527,386	3,442,512	-	4,969,898
29,521,159	1,312,238	665,363	31,498,760
<u>\$ 31,048,545</u>	<u>\$ 4,754,750</u>	<u>\$ 665,363</u>	<u>\$ 36,468,658</u>

TWIN CITIES HABITAT FOR HUMANITY, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (Decrease) in Net Assets	\$ 4,945,357	\$ 4,969,898
Adjustments to Reconcile Increase (Decrease) in Net Assets to Net Cash Used by Operating Activities:		
Depreciation	601,323	560,353
In-Kind Contributions	(570,142)	(1,045,328)
Recognition of Earning Advanced Grant Funds, Net	(149,992)	(198,407)
Discounts on Mortgages Related to Current-Year Home Sales	-	193,945
Discounts on Current-Year Borrowings Under Long-Term Notes Payable	(452,851)	(310,696)
Amortization of Discounts on Mortgages Receivable	(2,562,427)	(2,423,210)
Origination of Mortgages Held for Sale	(13,804,419)	(3,945,925)
Proceeds from Sale of Mortgages Held for Sale	11,729,319	2,643,034
Amortization of Discount on Long-Term Notes Payable	718,346	731,361
Gain on Sale for Mortgage Servicing Rights	(256,766)	-
Other	31,285	23,534
Changes in Operating Assets and Liabilities:		
Accounts Receivable	232,834	(445,387)
Contributions Receivable, Net	(2,137,558)	(3,760,206)
Inventory	(1,647,120)	(2,565,282)
Prepaid and Other Assets	(345,825)	(176,138)
Accounts Payable	87,661	(44,710)
Accrued Expenses	150,024	(38,726)
Net Cash Used by Operating Activities	(3,430,951)	(5,831,890)
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments Received on Mortgages Held	3,732,810	4,270,750
Purchase of Investments	(22,865)	(681,002)
Purchases of Property and Equipment	(555,800)	(540,371)
Net Cash Provided by Investing Activities	3,154,145	3,049,377
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances on Line of Credit	3,698,950	-
Payments on Line of Credit	(1,247,749)	(500,000)
Payments on Long-Term Notes Payable	(4,129,662)	(3,065,916)
Borrowings on Long-Term Notes Payable	2,452,500	4,344,013
Net Cash Provided by Financing Activities	774,039	778,097
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	497,233	(2,004,416)
Cash and Cash Equivalents - Beginning of Year	4,906,535	6,910,951
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 5,403,768	\$ 4,906,535
SUPPLEMENTARY CASH FLOW INFORMATION		
Interest Paid	\$ 1,024,647	\$ 948,015
NONCASH ITEMS		
Inventory and Equipment Contributed by Donors	\$ 697,215	\$ 1,182,506
Mortgages Received in Exchange for Homes Sold	\$ 399,000	\$ 4,016,165
Contributions and Pledge Payments of Investment Securities	\$ 410,663	\$ 502,528

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					Total Program Services	Support Services		Total Support Services	Total All All Services
	Creating Local and International Homeownership	Financing Homeownership	Preserving Homeownership	ReStores	Community Engagement		Management and General	Fundraising		
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	4,108,301	658,074	683,658	729,473	791,914	6,971,420	580,327	1,614,518	2,194,845	9,166,265
Professional Fees	164,748	161,629	34,959	4,113	52,499	417,948	92,786	326,781	419,567	837,515
Printing and Media	90,874	42,791	9,358	130,666	27,818	301,507	10,566	160,136	170,702	472,209
Postage	16,090	2,955	3,512	1,361	4,956	28,874	3,331	38,511	41,842	70,716
Insurance	101,564	13,436	16,183	-	18,457	149,640	9,272	25,864	35,136	184,776
Telephone	42,159	1,440	5,715	3,795	3,289	56,398	1,802	5,050	6,852	63,250
Occupancy	271,422	9,101	65,030	447,217	22,552	815,322	9,392	54,662	64,054	879,376
Vehicle Fleet	56,845	1,607	12,949	42,558	5,099	119,058	1,656	6,073	7,729	126,787
General Supplies, Tools, and Site Supplies	204,121	10,914	45,051	18,154	66,488	344,728	16,604	263,456	280,060	624,788
Equipment Lease and Maintenance	17,567	748	1,819	-	2,904	23,038	926	3,983	4,909	27,947
Meals and Travel	35,034	5,050	6,316	1,981	40,397	88,778	5,072	167,940	173,012	261,790
Staff Development	77,526	10,589	12,959	1,657	18,033	120,764	31,762	30,178	61,940	182,704
Habitat International Tithe and Fees	237,115	-	-	-	-	237,115	-	-	-	237,115
Loan Servicing and Bank Fees	7,951	162,709	1,193	41,765	2,857	216,475	21,857	22,612	44,469	260,944
Miscellaneous	14,100	6,069	5,809	48,383	13,444	87,805	49,791	11,002	60,793	148,598
Affordability Gap and Closing Cost Subsidies	-	564,972	-	-	-	564,972	-	-	-	564,972
Discount Amortization and Interest Expense	204,416	1,431,506	32,571	-	37,148	1,705,641	18,470	51,768	70,238	1,775,879
Depreciation	271,935	23,454	42,960	122,159	48,768	509,276	24,176	67,871	92,047	601,323
Total	\$ 18,160,729	\$ 3,107,044	\$ 1,298,650	\$ 1,593,282	\$ 1,156,623	\$ 25,316,328	\$ 877,790	\$ 2,850,405	\$ 3,728,195	\$ 29,044,523
Operating	\$ 18,160,729	\$ 2,324,069	\$ 1,298,650	\$ -	\$ 1,151,277	\$ 22,934,725	\$ 877,790	\$ 2,389,231	\$ 3,267,021	\$ 26,201,746
Nonoperating	-	782,975	-	-	-	782,975	-	-	-	782,975
Expenses Netted Against Revenues	-	-	-	1,593,282	5,346	1,598,628	-	461,174	461,174	2,059,802
Total	\$ 18,160,729	\$ 3,107,044	\$ 1,298,650	\$ 1,593,282	\$ 1,156,623	\$ 25,316,328	\$ 877,790	\$ 2,850,405	\$ 3,728,195	\$ 29,044,523
Percentage	62.53 %	10.70 %	4.47 %	5.49 %	3.98 %	87.16 %	3.02 %	9.81 %	12.84 %	100.00 %

See accompanying Notes to Consolidated Financial Statements.

TWIN CITIES HABITAT FOR HUMANITY, INC.
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2017

	Program Services					Total Program Services	Support Services		Total Support Services	Total All All Services
	Creating Local and International Homeownership	Financing Homeownership	Preserving Homeownership	ReStores	Community Engagement		Management and General	Fundraising		
Cost of Production - Cash	\$ 5,048,177	\$ -	\$ 223,133	\$ -	\$ -	\$ 5,271,310	\$ -	\$ -	\$ -	\$ 5,271,310
Cost of Production - In-Kind	780,396	-	55,649	-	-	836,045	-	-	-	836,045
Salaries, Taxes, and Benefits	3,503,701	572,040	582,552	596,851	680,109	5,935,253	504,089	1,517,119	2,021,208	7,956,461
Professional Fees	83,514	395,835	17,050	5,448	47,803	549,650	85,037	314,979	400,016	949,666
Printing and Media	9,358	6,641	1,467	73,169	22,885	113,520	9,236	160,151	169,387	282,907
Postage	11,771	1,966	1,397	1,021	4,833	20,988	2,221	29,410	31,631	52,619
Insurance	89,726	7,487	14,625	-	18,245	130,083	7,489	26,686	34,175	164,258
Telephone	41,374	1,281	4,908	3,256	3,819	54,638	1,298	5,380	6,678	61,316
Occupancy	254,819	7,578	52,947	403,400	22,017	740,761	7,581	54,169	61,750	802,511
Vehicle Fleet	49,935	1,307	9,891	29,966	5,899	96,998	1,308	6,693	8,001	104,999
General Supplies, Tools, and Site Supplies	207,500	8,459	43,972	20,900	65,225	346,056	9,761	180,900	190,661	536,717
Equipment Lease and Maintenance	10,923	636	1,243	-	2,028	14,830	2,065	8,019	10,084	24,914
Warranty	1,899	-	-	-	-	1,899	-	-	-	1,899
Meals and Travel	20,767	5,714	6,329	1,705	29,136	63,651	15,889	126,784	142,673	206,324
Staff Development	55,277	9,951	11,103	300	18,193	94,824	32,507	32,078	64,585	159,409
Habitat International Tithe and Fees	200,030	-	-	-	-	200,030	-	-	-	200,030
Property Taxes	1,410	89	3,290	86	455	5,330	90	538	628	5,958
Loan Servicing and Bank Fees	3,718	134,699	1,115	28,362	2,653	170,547	20,979	34,513	55,492	226,039
Miscellaneous	3,914	1,433	922	-	1,092	7,361	27,175	3,852	31,027	38,388
Affordability Gap and Closing Cost Subsidies	-	34,371	-	-	-	34,371	-	-	-	34,371
Discount Amortization and Interest Expense	194,866	1,387,313	31,762	-	39,624	1,653,565	16,265	57,956	74,221	1,727,786
Depreciation	263,530	21,413	41,924	82,972	52,457	462,296	21,480	76,577	98,057	560,353
Total	<u>\$ 10,836,605</u>	<u>\$ 2,598,213</u>	<u>\$ 1,105,279</u>	<u>\$ 1,247,436</u>	<u>\$ 1,016,473</u>	<u>\$ 16,804,006</u>	<u>\$ 764,470</u>	<u>\$ 2,635,804</u>	<u>\$ 3,400,274</u>	<u>\$ 20,204,280</u>
Operating	\$ 10,836,605	\$ 1,820,417	\$ 1,105,279	\$ -	\$ 1,016,473	\$ 14,778,774	\$ 764,470	\$ 2,292,339	\$ 3,056,809	\$ 17,835,583
Nonoperating	-	777,796	-	-	-	777,796	-	-	-	777,796
Expenses Netted Against Revenues	-	-	-	1,247,436	-	1,247,436	-	343,465	343,465	1,590,901
Total	<u>\$ 10,836,605</u>	<u>\$ 2,598,213</u>	<u>\$ 1,105,279</u>	<u>\$ 1,247,436</u>	<u>\$ 1,016,473</u>	<u>\$ 16,804,006</u>	<u>\$ 764,470</u>	<u>\$ 2,635,804</u>	<u>\$ 3,400,274</u>	<u>\$ 20,204,280</u>
Percentage	<u>53.64 %</u>	<u>12.86 %</u>	<u>5.47 %</u>	<u>6.17 %</u>	<u>5.03 %</u>	<u>83.17 %</u>	<u>3.78 %</u>	<u>13.05 %</u>	<u>16.83 %</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, 2018 AND 2017**

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, 2018 AND 2017

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 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:

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 fulfilled in the same time period within the unrestricted net asset class.

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 FDIC 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, 2018 AND 2017

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 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, 2018 and 2017, 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.

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, 2018 AND 2017

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. The carrying value of servicing rights is included within Prepaid and Other Assets in the consolidated balance sheets.

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, 2018 and 2017, respectively.

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, 2018 AND 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Credit Losses (Continued)

At June 30, 2018, 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 and \$75,878 as of June 30, 2018 and 2017, respectively.

At June 30, 2018, 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 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, 2018 and 2017, the allowance for doubtful accounts was \$45,078 and \$56,629, respectively.

Inventory

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

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.

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, 2018 AND 2017

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 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.

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.

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.

**TWIN CITIES HABITAT FOR HUMANITY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Reclassifications

Certain reclassifications have been made in the 2017 financial statements to conform to classifications used in 2018. There was no effect on net assets previously reported.

Subsequent Events

In preparing these consolidated financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through November 13, 2018, the date the consolidated 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:

	<u>2018</u>	<u>2017</u>
Gross Contributions Receivable	\$ 6,432,065	\$ 4,331,544
Less: Allowance for Doubtful Accounts	(45,078)	(56,629)
Less: Present Value Discount - 3% - 4%	(192,501)	(199,629)
Net Contributions Receivable	<u>\$ 6,194,486</u>	<u>\$ 4,075,286</u>
Amounts Due in:		
Less Than One Year	\$ 2,583,092	\$ 1,510,496
One to Five Years	3,848,973	2,821,048
Total	<u>\$ 6,432,065</u>	<u>\$ 4,331,544</u>

At June 30, 2018, two contributors comprised 24% of the contributions receivable and at June 30, 2017, three contributors comprised 37% of the contributions receivable.

TWIN CITIES HABITAT FOR HUMANITY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 3 INVENTORY

Inventory consists of the following at June 30:

	<u>2018</u>	<u>2017</u>
Homes in Progress	\$ 4,241,997	\$ 4,378,728
Land and Acquired Property	7,385,316	3,905,514
Building Material	483,450	529,458
Held for Resale	289,215	291,925
Total Inventory	<u>\$ 12,399,978</u>	<u>\$ 9,105,625</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>2018</u>		
	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Life</u>
Land	\$ 1,527,605	\$ -	N/A
Buildings and Improvements	8,005,059	1,149,948	5 - 39 Years
Furniture and Equipment	2,313,200	1,670,511	5 - 7 Years
Vehicles	566,855	442,109	3 - 5 Years
Total	<u>\$ 12,412,719</u>	<u>\$ 3,262,568</u>	
Property and Equipment, Net		<u>\$ 9,150,151</u>	
		<u>2017</u>	
	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Life</u>
Land	\$ 1,198,825	\$ -	N/A
Buildings and Improvements	8,000,139	864,524	5 - 39 Years
Furniture and Equipment	2,211,583	1,414,647	5 - 7 Years
Vehicles	588,674	505,117	3 - 5 Years
Total	<u>\$ 11,999,221</u>	<u>\$ 2,784,288</u>	
Property and Equipment, Net		<u>\$ 9,214,933</u>	

TWIN CITIES HABITAT FOR HUMANITY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 5 LEVERAGED LOANS RECEIVABLE

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

<u>Description</u>	<u>2018</u>	<u>2017</u>
Leveraged Loan A, 2.4316%, Due in interest-only installments with principal due on April 16, 2020.	\$ 3,700,000	\$ 3,700,000
Leveraged Loan B, 2.4316%, Due in interest-only installments through April 16, 2020, Commencing May 1, 2020 due in monthly installments of \$13,098 with principal due on April 16, 2043.	<u>2,766,900</u>	<u>2,766,900</u>
Total	<u>\$ 6,466,900</u>	<u>\$ 6,466,900</u>

The loans are secured by substantially all assets of the borrower. As of June 30, 2018 and 2017, 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

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, 2018 and 2017, the Organization had 847 and 862 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.

TWIN CITIES HABITAT FOR HUMANITY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 6 MORTGAGES RECEIVABLE (CONTINUED)

The outstanding mortgages receivable held for sale portfolio is \$3,361,787 and \$1,293,400 at June 30, 2018 and 2017, 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, 2018 and 2017.

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>2018</u>	<u>2017</u>
Mortgages Receivable Held	\$ 63,055,069	\$ 67,871,778
Less: Unamortized Discount	(22,858,535)	(25,420,963)
Less: Allowance for Credit Losses	<u>(69,071)</u>	<u>(75,878)</u>
Total	<u>\$ 40,127,463</u>	<u>\$ 42,374,937</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 9.30% 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.

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

	<u>2018</u>	<u>2017</u>
Allowance for Credit Losses:		
Balance at Beginning of the Year	\$ 75,878	\$ 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>\$ 75,878</u>

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

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

	<u>2017</u>			<u>Total</u>
	<u>Current</u>	<u>30-89 Days Past Due</u>	<u>90 Days or More Past Due</u>	
Mortgages Receivable	\$ 65,156,067	\$ 1,306,901	\$ 1,408,810	\$ 67,871,778

TWIN CITIES HABITAT FOR HUMANITY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 7 LONG-TERM NOTES PAYABLE

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

<u>Description</u>	<u>2018</u>	<u>2017</u>
<i>Interest-Bearing Notes:</i>		
Notes Payable, 3%, Secured by Specifically Identified Mortgages Receivable, Due in Monthly Installments of \$6,453 with Maturity Dates from September 1, 2018 to January 1, 2020 (a)	\$ 63,721	\$ 176,311
Note Payable, 1%, Secured by Specifically Identified Mortgages Receivable, Due in Monthly Installments of \$1,738 through March 1, 2022 (a)	76,745	96,729
Note Payable, 2.83%, Secured by Specifically Identified Mortgages Receivable, Due in Monthly Installments of \$88,977 through September 1, 2040 (a)	14,642,658	15,286,089
Note Payable, 4.25%, Secured by Specific Mortgages Receivable, Due in Monthly Installments of \$7,683 through July 1, 2023	422,771	495,048
Note Payable, 2.99%, Secured by Specifically Identified Mortgages Receivable, Due in Monthly Installments of \$4,491 through February 1, 2019	35,533	87,491
Note Payable, 3%, Unsecured, Due in Quarterly Interest-Only Installments of \$6,000 to \$9,750 with Principal Balance Due in Full on October 1, 2022	800,000	800,000
Note Payable, 4.8%, Secured by Specific Mortgages Receivable, Due in Quarterly Installments of \$2,137 through June 30, 2018	-	2,843
Note Payable, 3.75%, Secured by specifically identified mortgages receivable, Due in monthly installments of \$7,505 through May 1, 2021	248,603	327,572
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	87,490	137,900

TWIN CITIES HABITAT FOR HUMANITY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 7 LONG-TERM NOTES PAYABLE (CONTINUED)

<u>Description</u>	<u>2018</u>	<u>2017</u>
<i>Interest-Bearing Notes (Continued):</i>		
Note Payable, 3.40%, Secured by specifically identified mortgages receivable, Due in monthly installments of \$4,540 through March 1, 2022	\$ 191,361	\$ 238,355
Note Payable, 4%, Secured by specifically identified mortgages receivable, Due in monthly installments of installments of \$7,593 through July 1, 2022	343,270	418,792
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)	720,777	741,494
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	4,700,000
Note Payable, 1.5%, Unsecured, Quarterly interest-only payments of \$3,750 with principal balance due on January 31, 2028	1,000,000	-
Subtotal - Interest-Bearing Notes	<u>25,332,929</u>	<u>26,508,624</u>
<i>Qualified Low Income Community Investment Notes:</i>		
QALICI Note A, 2.315%, Secured by specific parcels of land, buildings, improvements, fixtures and personal property thereon and leases, rents, issues and profits therefrom, Due in interest-only installments with principal due on April 16, 2020	3,700,000	3,700,000
QALICI Note B, 2.315%, Secured by specific parcels of land, buildings, improvements, fixtures and personal property thereon and leases, rents, issues and profits therefrom, Due in interest-only installments through April 16, 2020, Commencing May 1, 2020 due in monthly installments of \$12,939 with principal due on April 16, 2043	2,766,900	2,766,900
QALICI Note C, 2.315%, Secured by specific parcels of land, buildings, improvements, fixtures and personal property thereon and leases, rents, issues and profits therefrom, Due in interest-only installments through April 1, 2020, Commencing May 1, 2020 due in monthly installments of \$12,407 with principal due on April 16, 2043	2,653,100	2,653,100
Subtotal - Qualified Low Income Community Investment Notes	<u>9,120,000</u>	<u>9,120,000</u>

TWIN CITIES HABITAT FOR HUMANITY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 7 LONG-TERM NOTES PAYABLE (CONTINUED)

<u>Description</u>	<u>2018</u>	<u>2017</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)	\$ 10,009,060	\$ 10,369,869
Notes Payable, Noninterest-bearing, Unsecured, Due in Monthly Installments to Habitat for Humanity International for the SHOP program over 48 months (b)	241,388	363,379
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	24,000	36,000
Note Payable, Noninterest-bearing, Unsecured, Amount Due in Yearly Installments of \$6,667 through January 1, 2036	119,996	126,663
	<hr/>	<hr/>
Subtotal - Noninterest Bearing Notes	10,394,444	10,895,911
<i>Forgivable Notes:</i>		
Note Payable, Noninterest-bearing, Unsecured, No Payments Required, Forgivable on August 28, 2019 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	523,273	523,273
Notes Payable, Noninterest-bearing, Unsecured, No Payments Required, Forgivable Contingent on Specific Requirements Being Met	638,747	788,739
	<hr/>	<hr/>
Subtotal - Forgivable Notes	1,422,020	1,572,012
Total	46,269,393	48,096,547
Less: Unamortized Discount	(5,743,298)	(6,008,793)
Less: Unamortized Origination Fees	(444,961)	(473,390)
	<hr/>	<hr/>
Long-Term Notes Payable, Net	\$ 40,081,134	\$ 41,614,364

**TWIN CITIES HABITAT FOR HUMANITY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 7 LONG-TERM NOTES PAYABLE (CONTINUED)

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

Maturities of long-term notes payable are as follows:

<u>Year Ending June 30,</u>	<u>Repayable</u>	<u>Forgivable</u>
2019	\$ 2,072,734	\$ 898,747
2020	10,515,439	-
2021	3,109,987	-
2022	2,004,334	-
2023	2,686,967	-
Thereafter	24,457,912	523,273
Total	<u>\$ 44,847,373</u>	<u>\$ 1,422,020</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, 2018 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.

TWIN CITIES HABITAT FOR HUMANITY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 7 LONG-TERM NOTES PAYABLE (CONTINUED)

Subsequent Debt Activity

Subsequent to year-end, the Organization entered into the following debt agreements:

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.

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. 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.

In September 2018, the Organization received a social impact investment loan of \$800,000 at 2.86%. This is an unsecured loan with interest-only payments until maturity in September 2025.

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, 2018 and 2017.

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. As of June 30, 2018 and 2017, there was an outstanding balance of \$-0- and \$247,749, respectively.

The Organization has two lines of credit with interest rates ranging from 1.00% to the Prime rate less 1.00%. One revolving line of credit, which expires in June 2028, permits borrowings up to \$25,000,000. The agreement is unsecured. No funds have been borrowed as of June 30, 2018. 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 August 2019. The agreement is secured by mortgage loans in transit. As of June 30, 2018 and 2017, there is an outstanding balance of \$2,698,950 and \$-0-, respectively.

TWIN CITIES HABITAT FOR HUMANITY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

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, 2018 and 2017 was \$560,353 and \$536,039 respectively.

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

<u>Year Ending June 30,</u>	<u>Amount</u>
2019	\$ 372,288
2020	377,060
2021	383,275
2022	257,532
2023	152,027
Total Minimum Lease Payments	<u>\$ 1,542,182</u>

NOTE 10 IN-KIND CONTRIBUTIONS

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

	<u>2018</u>	<u>2017</u>
Land and Building Materials	\$ 186,281	\$ 316,546
Tools and Equipment	383,861	728,782
Specialized Labor	127,073	137,178
Subtotal In-Kind Contributions	<u>697,215</u>	<u>1,182,506</u>
Special Event Donated Material	174,170	124,591
Total In-Kind Contributions	<u>\$ 871,385</u>	<u>\$ 1,307,097</u>

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

	<u>2018</u>	<u>2017</u>
Cost of Homes Sold	\$ 694,496	\$ 836,045
Specialized Labor and Services	127,073	137,178
Materials and Equipment	383,861	728,782
Special Event Direct Benefits	174,170	124,591
Total In-Kind Expenses	<u>\$ 1,379,600</u>	<u>\$ 1,826,596</u>

The difference between revenue and expense is due to in-kind contributions that are either held in inventory or expensed out of inventory.

TWIN CITIES HABITAT FOR HUMANITY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

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 \$135,207 and \$108,403 for the years ended June 30, 2018 and 2017, respectively.

NOTE 12 TEMPORARILY RESTRICTED

Temporarily restricted net assets consist of the following at June 30:

	2018	2017
Time Restricted Pledges	\$ 6,194,486	\$ 4,075,286
Restricted for Program Purposes	945,012	632,292
Unappropriated Endowment Earnings	86,415	47,172
Total Temporarily Restricted Net Assets	<u>\$ 7,225,913</u>	<u>\$ 4,754,750</u>

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

	2018	2017
Net Pledges Received	\$ 1,381,932	\$ 271,948
Program Expenditures Incurred	556,458	462,870
Net Assets Released from Restrictions - Capital	-	300,000
Total Releases from Restriction	<u>\$ 1,938,390</u>	<u>\$ 1,034,818</u>

NOTE 13 ENDOWMENT

Donor Restricted Endowments

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

	2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor Restricted Endowment Funds	<u>\$ -</u>	<u>\$ 86,415</u>	<u>\$ 665,363</u>	<u>\$ 751,778</u>
	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor Restricted Endowment Funds	<u>\$ -</u>	<u>\$ 47,172</u>	<u>\$ 665,363</u>	<u>\$ 712,535</u>

TWIN CITIES HABITAT FOR HUMANITY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 13 ENDOWMENT (CONTINUED)

Donor Restricted Endowments (Continued)

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

	2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Fund Balance, June 30, 2017	\$ -	\$ 47,172	\$ 665,363	\$ 712,535
Contributions	-	-	-	-
Investment Income	-	39,243	-	39,243
Appropriations	-	-	-	-
Endowment Fund Balance, June 30, 2018	<u>\$ -</u>	<u>\$ 86,415</u>	<u>\$ 665,363</u>	<u>\$ 751,778</u>

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Fund Balance, June 30, 2016	\$ -	\$ 25,817	\$ 665,363	\$ 691,180
Contributions	-	-	-	-
Investment Income	-	21,355	-	21,355
Appropriations	-	-	-	-
Endowment Fund Balance, June 30, 2017	<u>\$ -</u>	<u>\$ 47,172</u>	<u>\$ 665,363</u>	<u>\$ 712,535</u>

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

Investment Objectives and Strategies

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

TWIN CITIES HABITAT FOR HUMANITY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 13 ENDOWMENT (CONTINUED)

Spending Policy

The board of directors authorized appropriations as it deems prudent. The Organization has a practice of appropriating for distribution only investment earnings in excess of original endowment principal. Unappropriated earnings for the fiscal years 2009 - 2018 total \$86,415.

NOTE 14 INVESTMENTS

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

	<u>2018</u>	<u>2017</u>
Mutual Funds	\$ 355,745	\$ 336,274
Stocks	323,003	298,643
Exchange-Traded and Closed-End Funds	<u>62,606</u>	<u>62,098</u>
Total	<u>\$ 741,354</u>	<u>\$ 697,015</u>

Investment income consisted of the following for the years ended June 30:

	<u>2018</u>	<u>2017</u>
Interest and Dividend Income, Net of Fees	\$ 17,769	\$ 5,342
Unrealized Gain	<u>21,474</u>	<u>16,013</u>
Total	<u>\$ 39,243</u>	<u>\$ 21,355</u>

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:

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

	<u>2017</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual Funds	\$ 336,274	\$ -	\$ -	\$ 336,274
Stocks	298,643	-	-	298,643
Exchange-Traded and Closed-End Funds	<u>62,098</u>	-	-	<u>62,098</u>
Total	<u>\$ 697,015</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 697,015</u>

TWIN CITIES HABITAT FOR HUMANITY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

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 are reported within Prepaids and Other Assets on the Consolidated Balance Sheets and were \$256,766 and \$-0- as of June 30, 2018 and 2017, respectively. The servicing asset for June 30, 2018 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:

	<u>2018</u>	<u>2017</u>
Servicing Fees Earned	\$ 35,375	\$ -
Gain on Loan Sales	256,766	-

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

	<u>2018</u>	<u>2017</u>
Balance at Beginning of the Year	\$ -	\$ -
Additions	256,766	-
Impairment	-	-
Amortization	-	-
Balance at End of the Year	<u>\$ 256,766</u>	<u>\$ -</u>

TWIN CITIES HABITAT FOR HUMANITY, INC.
CONSOLIDATING BALANCE SHEET
JUNE 30, 2018

ASSETS	Twin Cities Habitat for Humanity, Inc.	Lending, Inc.	TCHFH St. Paul HQ, LLC	Eliminations	Consolidated
Cash and Cash Equivalents	\$ 4,902,738	\$ 358,316	\$ 142,714	\$ -	\$ 5,403,768
Investments	741,354	-	-	-	741,354
Accounts Receivable	693,669	1,747	-	-	695,416
Contributions Receivable, Net	6,194,486	-	-	-	6,194,486
Related Entity Receivable	910,990	-	-	(910,990)	-
Inventory	12,399,978	-	-	-	12,399,978
Prepaid and Other Assets	1,142,712	270,582	-	-	1,413,294
Leveraged Loans Receivable	6,466,900	-	-	-	6,466,900
Property and Equipment, Net	1,125,367	-	8,431,450	(406,666)	9,150,151
Mortgages Receivable:					
Mortgages Receivable Held, at Face Value	63,055,069	-	-	-	63,055,069
Mortgages Receivable Held for Sale, at Face Value	-	3,361,787	-	-	3,361,787
Less: Unamortized Discount and Allowance	(22,927,606)	-	-	-	(22,927,606)
Mortgages Receivable, Net	<u>40,127,463</u>	<u>3,361,787</u>	<u>-</u>	<u>-</u>	<u>43,489,250</u>
 Total Assets	 <u>\$ 74,705,657</u>	 <u>\$ 3,992,432</u>	 <u>\$ 8,574,164</u>	 <u>\$ (1,317,656)</u>	 <u>\$ 85,954,597</u>
 LIABILITIES AND NET ASSETS					
LIABILITIES					
Accounts Payable	\$ 829,349	\$ 25,720	\$ -	\$ -	\$ 855,069
Accrued Expenses	887,835	-	17,594	-	905,429
Related Entity Payable	-	902,762	8,228	(910,990)	-
Line of Credit	-	2,698,950	-	-	2,698,950
Long-Term Notes Payable:					
Long-Term Notes Payable at Face Value	37,149,393	-	9,120,000	-	46,269,393
Less: Unamortized Discount and Origination Fees	(6,188,259)	-	-	-	(6,188,259)
Long-Term Notes Payable, Net	<u>30,961,134</u>	<u>-</u>	<u>9,120,000</u>	<u>-</u>	<u>40,081,134</u>
 Total Liabilities	 32,678,318	 3,627,432	 9,145,822	 (910,990)	 44,540,582
 NET ASSETS					
Unrestricted	34,136,063	365,000	(571,658)	(406,666)	33,522,739
Temporarily Restricted	7,225,913	-	-	-	7,225,913
Permanently Restricted	665,363	-	-	-	665,363
Total Net Assets	<u>42,027,339</u>	<u>365,000</u>	<u>(571,658)</u>	<u>(406,666)</u>	<u>41,414,015</u>
 Total Liabilities and Net Assets	 <u>\$ 74,705,657</u>	 <u>\$ 3,992,432</u>	 <u>\$ 8,574,164</u>	 <u>\$ (1,317,656)</u>	 <u>\$ 85,954,597</u>

**TWIN CITIES HABITAT FOR HUMANITY, INC.
CONSOLIDATING STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018**

	Twin Cities Habitat for Humanity, Inc.			Lending, Inc.	TCHFH St. Paul HQ, LLC	Eliminations	Consolidated		
	Unrestricted	Temporarily Restricted	Permanently Restricted	Unrestricted	Unrestricted		Unrestricted	Temporarily Restricted	Permanently Restricted
OPERATING REVENUE AND SUPPORT									
Operating Revenue:									
Home Sales (Mortgages Received)	\$ 8,095,975	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,095,975	\$ -	\$ -
Interest Income	162,311	8,387	-	23,362	-	-	185,673	8,387	-
ReStore Sales (Net of Direct Expense of \$1,593,282)	119,904	-	-	-	-	-	119,904	-	-
Service and Other Revenue from Related Entity	120,706	-	-	336,543	-	(457,249)	-	-	-
Other	56,736	39,243	-	292,140	240,000	(240,000)	348,876	39,243	-
Total Operating Revenue	8,555,632	47,630	-	652,045	240,000	(697,249)	8,750,428	47,630	-
Support:									
Contributions	12,126,971	4,361,923	-	-	-	-	12,126,971	4,361,923	-
Public Sector Funds	2,702,525	-	-	-	-	-	2,702,525	-	-
Contribution from Related Entity	-	-	-	435,679	-	(435,679)	-	-	-
In-Kind	697,215	-	-	-	-	-	697,215	-	-
Special Events (Net of Direct Expense of \$466,520)	228,108	-	-	-	-	-	228,108	-	-
Total Support	15,754,819	4,361,923	-	435,679	-	(435,679)	15,754,819	4,361,923	-
Net Assets Released from Restrictions	1,938,390	(1,938,390)	-	-	-	-	1,938,390	(1,938,390)	-
Total Operating Revenue and Support	26,248,841	2,471,163	-	1,087,724	240,000	(1,132,928)	26,443,637	2,471,163	-
OPERATING EXPENSES									
Program Services	22,698,580	-	-	863,863	474,912	(1,102,630)	22,934,725	-	-
Management and General	854,087	-	-	10,934	30,033	(17,264)	877,790	-	-
Fundraising	2,327,779	-	-	17,927	84,180	(40,655)	2,389,231	-	-
Total Operating Expenses	25,880,446	-	-	892,724	589,125	(1,160,549)	26,201,746	-	-
OPERATING INCREASE (DECREASE) IN NET ASSETS	368,395	2,471,163	-	195,000	(349,125)	27,621	241,891	2,471,163	-
NONOPERATING ACTIVITIES									
Contribution of Below Market Interest Rate Debt	452,851	-	-	-	-	-	452,851	-	-
Amortization of Discount on Mortgages	2,562,427	-	-	-	-	-	2,562,427	-	-
Amortization of Discount on Long-Term Notes Payable	(782,975)	-	-	-	-	-	(782,975)	-	-
NONOPERATING INCREASE IN NET ASSETS	2,232,303	-	-	-	-	-	2,232,303	-	-
TOTAL INCREASE (DECREASE) IN NET ASSETS	2,600,698	2,471,163	-	195,000	(349,125)	27,621	2,474,194	2,471,163	-
Net Assets - Beginning of Year	31,535,365	4,754,750	665,363	170,000	(222,533)	(434,287)	31,048,545	4,754,750	665,363
NET ASSETS - END OF YEAR	<u>\$ 34,136,063</u>	<u>\$ 7,225,913</u>	<u>\$ 665,363</u>	<u>\$ 365,000</u>	<u>\$ (571,658)</u>	<u>\$ (406,666)</u>	<u>\$ 33,522,739</u>	<u>\$ 7,225,913</u>	<u>\$ 665,363</u>