

TWIN CITIES HABITAT FOR HUMANITY, INC.
CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2017 AND 2016

**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, 2017 and 2016, 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.

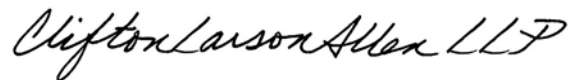
Board of Directors
Twin Cities Habitat for Humanity, Inc.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Twin Cities Habitat for Humanity, Inc. as of June 30, 2017 and 2016, and the changes 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, 2017

TWIN CITIES HABITAT FOR HUMANITY, INC.
CONSOLIDATED BALANCE SHEETS
JUNE 30, 2017 AND 2016

	2017	2016
ASSETS		
Cash and Cash Equivalents	\$ 4,906,535	\$ 6,910,951
Investments	697,015	-
Accounts Receivable	928,250	482,863
Contributions Receivable, Net (Note 2)	4,075,286	329,951
Inventory (Note 3)	9,105,625	5,973,155
Prepaid and Other Assets	810,703	634,565
Leveraged Loans Receivable (Note 5)	6,466,900	6,466,900
Property and Equipment, Net (Note 4)	9,214,933	9,140,330
Mortgages Receivable (Note 6):		
Mortgages Receivable Held, at Face Value	67,871,778	71,664,388
Mortgages Receivable Held for Sale, at Face Value	1,293,400	-
Less: Unamortized Discount and Allowance	<u>(25,496,841)</u>	<u>(27,726,106)</u>
Mortgages Receivable, Net	<u>43,668,337</u>	<u>43,938,282</u>
 Total Assets	 <u><u>\$ 79,873,584</u></u>	 <u><u>\$ 73,876,997</u></u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable	\$ 767,408	\$ 812,118
Accrued Expenses	775,405	739,546
Line of Credit (Note 8)	247,749	747,749
Long-Term Notes Payable (Note 7):		
Long-Term Notes Payable, at Face Value	48,096,547	47,016,857
Less: Unamortized Discount and Origination Fees	<u>(6,482,183)</u>	<u>(6,938,033)</u>
Long-Term Notes Payable, Net	<u>41,614,364</u>	<u>40,078,824</u>
 Total Liabilities	 43,404,926	 42,378,237
NET ASSETS		
Unrestricted	31,048,545	29,521,159
Temporarily Restricted (Note 12)	4,754,750	1,312,238
Permanently Restricted (Note 13)	665,363	665,363
Total Net Assets	<u>36,468,658</u>	<u>31,498,760</u>
 Total Liabilities and Net Assets	 <u><u>\$ 79,873,584</u></u>	 <u><u>\$ 73,876,997</u></u>

See accompanying Notes to Consolidated Financial Statements.

**TWIN CITIES HABITAT FOR HUMANITY, INC.
CONSOLIDATED STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2017 AND 2016**

	2017			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
OPERATING REVENUE AND SUPPORT				
Operating Revenue:				
Home Sales (Mortgages Received)	\$ 4,420,980	\$ -	\$ -	\$ 4,420,980
Interest Income	180,327	-	-	180,327
ReStore Sales (Net of Direct Expense of \$1,247,436 and \$678,644, respectively)	193,281	-	-	193,281
Other	4,009	21,355	-	25,364
Total Operating Revenue	<u>4,798,597</u>	<u>21,355</u>	<u>-</u>	<u>4,819,952</u>
Support:				
Foundations	845,725	511,000	-	1,356,725
Corporations	2,806,413	298,322	-	3,104,735
Religious and Civic Organizations	527,459	68,987	-	596,446
Individuals	4,344,317	3,577,666	-	7,921,983
Public Sector Funds	1,738,538	-	-	1,738,538
In-Kind (Note 10)	1,182,506	-	-	1,182,506
Special Events (Net of Direct Expense of \$343,465 and \$423,162)	322,431	-	-	322,431
Total Support	<u>11,767,389</u>	<u>4,455,975</u>	<u>-</u>	<u>16,223,364</u>
Net Assets Released from Restrictions (Note 12)	<u>1,034,818</u>	<u>(1,034,818)</u>	<u>-</u>	<u>-</u>
Total Operating Revenue and Support	<u>17,600,804</u>	<u>3,442,512</u>	<u>-</u>	<u>21,043,316</u>
OPERATING EXPENSES				
Program Services	14,778,774	-	-	14,778,774
Management and General	764,470	-	-	764,470
Fundraising	2,292,339	-	-	2,292,339
Total Operating Expenses	<u>17,835,583</u>	<u>-</u>	<u>-</u>	<u>17,835,583</u>
OPERATING INCREASE (DECREASE) IN NET ASSETS				
	(234,779)	3,442,512	-	3,207,733
NONOPERATING ACTIVITIES				
Contribution of Below Market Interest Rate Debt	310,696	-	-	310,696
Home Sales Mortgage Discount	(193,945)	-	-	(193,945)
Amortization of Discount on Mortgages	2,423,210	-	-	2,423,210
Amortization of Discount on Long-Term Notes Payable	(777,796)	-	-	(777,796)
Contributions for Capital Purposes	-	-	-	-
NONOPERATING INCREASE (DECREASE) IN NET ASSETS				
	<u>1,762,165</u>	<u>-</u>	<u>-</u>	<u>1,762,165</u>
TOTAL INCREASE (DECREASE) IN NET ASSETS				
	1,527,386	3,442,512	-	4,969,898
Net Assets - Beginning of Year	<u>29,521,159</u>	<u>1,312,238</u>	<u>665,363</u>	<u>31,498,760</u>
NET ASSETS - END OF YEAR	<u>\$ 31,048,545</u>	<u>\$ 4,754,750</u>	<u>\$ 665,363</u>	<u>\$ 36,468,658</u>

See accompanying Notes to Consolidated Financial Statements.

2016

Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 6,714,785	\$ -	\$ -	\$ 6,714,785
167,893	693	-	168,586
391,012	-	-	391,012
151,489	-	-	151,489
<u>7,425,179</u>	<u>693</u>	<u>-</u>	<u>7,425,872</u>
336,641	317,779	-	654,420
3,197,827	282,587	-	3,480,414
436,544	48,312	-	484,856
3,001,603	200,368	-	3,201,971
2,790,032	521	-	2,790,553
1,559,662	-	-	1,559,662
173,684	-	-	173,684
<u>11,495,993</u>	<u>849,567</u>	<u>-</u>	<u>12,345,560</u>
913,407	(913,407)	-	-
19,834,579	(63,147)	-	19,771,432
17,238,660	-	-	17,238,660
659,823	-	-	659,823
2,184,046	-	-	2,184,046
<u>20,082,529</u>	<u>-</u>	<u>-</u>	<u>20,082,529</u>
(247,950)	(63,147)	-	(311,097)
716,916	-	-	716,916
(2,642,609)	-	-	(2,642,609)
2,371,518	-	-	2,371,518
(810,024)	-	-	(810,024)
4,634	300,000	-	304,634
<u>(359,565)</u>	<u>300,000</u>	<u>-</u>	<u>(59,565)</u>
(607,515)	236,853	-	(370,662)
<u>30,128,674</u>	<u>1,075,385</u>	<u>665,363</u>	<u>31,869,422</u>
<u>\$ 29,521,159</u>	<u>\$ 1,312,238</u>	<u>\$ 665,363</u>	<u>\$ 31,498,760</u>

TWIN CITIES HABITAT FOR HUMANITY, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (Decrease) in Net Assets	\$ 4,969,898	\$ (370,662)
Adjustments to Reconcile Increase (Decrease) in Net Assets to Net Cash Used by Operating Activities:		
Depreciation	560,353	477,166
Amortization of Leasehold Improvements	20,000	-
In-Kind Contributions	(1,045,328)	(1,723,945)
Forgiveness of Debt	(198,407)	(1,441,091)
Discounts on Mortgages Related to Current-Year Home Sales	193,945	2,642,609
Discounts on Current-Year Borrowings Under Long-Term Notes Payable	(310,696)	(716,916)
Amortization of Origination Fees	46,435	87,287
Origination Fees on Current Year Borrowings	(11,250)	(125,173)
Amortization of Discounts on Mortgages Receivable	(2,423,210)	(2,371,518)
Origination of Mortgages Held for Sale	(3,945,925)	-
Proceeds from Sale of Mortgages Held for Sale	2,643,034	-
Payments on Mortgages Held for Sale	9,491	-
Amortization of Discount on Long-Term Notes Payable	731,361	722,737
Unrealized Gain on Investments	(16,013)	-
Allowance for Doubtful Accounts	14,871	(54,828)
Gain on Disposal of Property and Equipment	-	(500)
Changes in Operating Assets and Liabilities:		
Accounts Receivable	(445,387)	(33,098)
Contributions Receivable, Net	(3,760,206)	338,426
Inventory	(2,565,282)	(4,617,326)
Prepaid and Other Assets	(176,138)	69,470
Accounts Payable	(44,710)	185,657
Accrued Expenses	(78,726)	(37,182)
Net Cash Used by Operating Activities	(5,831,890)	(6,968,887)
CASH FLOWS FROM INVESTING ACTIVITIES		
Collections on Mortgages Receivable	4,270,750	4,073,926
Purchase of Investments	(681,002)	-
Proceeds on Sale of Certificate of Deposit	-	236,663
Proceeds from the Sale of Property and Equipment	-	500
Purchases of Property and Equipment	(540,371)	(195,664)
Net Cash Provided by Investing Activities	3,049,377	4,115,425
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowings on Line of Credit	-	500,000
Payments on Line of Credit	(500,000)	(52,251)
Required Payments on Long-Term Notes Payable	(3,065,916)	(1,956,743)
Borrowings on Long-Term Notes Payable	4,344,013	4,281,096
Net Cash Provided by Financing Activities	778,097	2,772,102
NET DECREASE IN CASH AND CASH EQUIVALENTS	(2,004,416)	(81,360)
Cash and Cash Equivalents - Beginning of Year	6,910,951	6,992,311
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 4,906,535	\$ 6,910,951
SUPPLEMENTARY CASH FLOW INFORMATION		
Interest Paid	\$ 948,015	\$ 975,976
NONCASH ITEMS		
Inventory and Equipment Contributed by Donors	\$ 1,182,506	\$ 1,559,662
Mortgages Received in Exchange for Homes Sold	\$ 4,016,165	\$ 6,296,304
Contributions and Pledge Payments of Investment Securities	\$ 502,528	\$ 182,200

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					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	\$ 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.
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2016

	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	\$ 7,472,478	\$ -	\$ 245,659	\$ -	\$ 12,051	\$ 7,730,188	\$ -	\$ 65	\$ 65	\$ 7,730,253
Cost of Production - In-Kind	1,110,997	-	24,521	-	1,291	1,136,809	-	-	-	1,136,809
Salaries, Taxes, and Benefits	3,181,500	338,199	692,518	386,508	756,166	5,354,891	443,332	1,418,558	1,861,890	7,216,781
Professional Fees	69,242	225,280	29,050	2,887	84,750	411,209	109,083	356,633	465,716	876,925
Printing and Media	618	262	688	28,777	18,810	49,155	606	133,690	134,296	183,451
Postage	9,273	750	2,827	-	5,711	18,561	813	34,244	35,057	53,618
Insurance	92,898	6,891	21,067	-	22,132	142,988	6,822	29,589	36,411	179,399
Telephone	41,748	951	6,605	1,776	4,018	55,098	962	4,764	5,726	60,824
Occupancy	239,985	5,704	55,190	200,698	20,790	522,367	5,666	41,262	46,928	569,295
Vehicle Fleet	42,692	938	11,321	13,472	5,330	73,753	932	5,092	6,024	79,777
General Supplies, Tools, and Site Supplies	521,777	2,785	14,547	14,795	47,279	601,183	5,596	204,832	210,428	811,611
Equipment Lease and Maintenance	10,976	587	1,806	3,356	2,869	19,594	746	7,874	8,620	28,214
Warranty	2,259	-	-	-	-	2,259	-	-	-	2,259
Meals and Travel	21,685	1,632	5,320	133	24,810	53,580	7,061	119,188	126,249	179,829
Staff Development	29,596	1,974	8,352	1,104	14,311	55,337	27,644	14,327	41,971	97,308
Habitat International Tithe and Fees	190,008	-	-	-	-	190,008	-	-	-	190,008
Property Taxes	2,145	142	486	-	482	3,255	141	624	765	4,020
Loan Servicing and Bank Fees	16,962	104,966	4,575	20,318	1,706	148,527	16,641	52,869	69,510	218,037
Miscellaneous	40,733	2,737	12,742	176	9,660	66,048	1,840	44,888	46,728	112,776
Discount Amortization and Interest Expense	194,204	1,425,828	43,705	-	46,163	1,709,900	14,250	61,849	76,099	1,785,999
Depreciation	248,065	17,807	54,623	4,644	57,479	382,618	17,688	76,860	94,548	477,166
Total	<u>\$ 13,539,841</u>	<u>\$ 2,137,433</u>	<u>\$ 1,235,602</u>	<u>\$ 678,644</u>	<u>\$ 1,135,808</u>	<u>\$ 18,727,328</u>	<u>\$ 659,823</u>	<u>\$ 2,607,208</u>	<u>\$ 3,267,031</u>	<u>\$ 21,994,359</u>
Operating	\$ 13,539,841	\$ 1,327,409	\$ 1,235,602	\$ -	\$ 1,135,808	\$ 17,238,660	\$ 659,823	\$ 2,184,046	\$ 2,843,869	\$ 20,082,529
Nonoperating	-	810,024	-	-	-	810,024	-	-	-	810,024
Expenses Netted Against Revenues	-	-	-	678,644	-	678,644	-	423,162	423,162	1,101,806
Total	<u>\$ 13,539,841</u>	<u>\$ 2,137,433</u>	<u>\$ 1,235,602</u>	<u>\$ 678,644</u>	<u>\$ 1,135,808</u>	<u>\$ 18,727,328</u>	<u>\$ 659,823</u>	<u>\$ 2,607,208</u>	<u>\$ 3,267,031</u>	<u>\$ 21,994,359</u>
Percentage	<u>61.56 %</u>	<u>9.72 %</u>	<u>5.62 %</u>	<u>3.09 %</u>	<u>5.16 %</u>	<u>85.15 %</u>	<u>3.00 %</u>	<u>11.85 %</u>	<u>14.85 %</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, 2017 AND 2016

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 based on households paying no more than 30% of their monthly income for housing costs. The mortgages are profit-free.

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

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, 2017 AND 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Consolidation

The consolidated financial statements include the activities of Twin Cities Habitat for Humanity – Community Housing Development Organization, Inc. (CHDO), TCHFH Lending, Inc. and Twin Cities Habitat for Humanity St. Paul HQ, LLC (TCHFH St. Paul HQ, LLC). Twin Cities Habitat for Humanity, Inc. controls the CHDO's Board of Directors and economic interest exists between the entities. TCHFH 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. The CHDO had no activity in fiscal year 2017 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, 2017 AND 2016

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, 2017 and 2016, 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, 2017 AND 2016

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 cost or estimated fair value. The estimated fair value of the mortgages held for sale is determined to be equal to the fair value. The Organization has an agreement with one financial institution to purchase the loans at cost. No gain or loss is recognized on the sale.

Allowance for Credit Losses

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

At June 30, 2017, the Organization has individually evaluated mortgage notes for impairment. Management believes all mortgages receivable are realizable through either collection or foreclosure proceeds if not collected, with the exception of one program. Due to current market conditions and credit quality, one mortgage program recorded an allowance for doubtful accounts of \$75,878 as of June 30, 2017 and 2016.

At June 30, 2017, 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, 2017 and 2016, the allowance for doubtful accounts was \$56,629 and \$71,500, respectively.

TWIN CITIES HABITAT FOR HUMANITY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

TWIN CITIES HABITAT FOR HUMANITY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 2016 financial statements to conform to classifications used in 2017. 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 14, 2017, the date the consolidated financial statements were available to be issued.

TWIN CITIES HABITAT FOR HUMANITY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 2 CONTRIBUTIONS RECEIVABLE

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

	<u>2017</u>	<u>2016</u>
Gross Contributions Receivable	\$ 4,331,544	\$ 410,663
Less: Allowance for Doubtful Accounts	(56,629)	(71,500)
Less: Present Value Discount - 4% - 5%	(199,629)	(9,212)
Net Contributions Receivable	<u>\$ 4,075,286</u>	<u>\$ 329,951</u>
Amounts Due in:		
Less Than One Year	\$ 1,510,496	\$ 320,665
One to Five Years	2,821,048	89,998
Total	<u>\$ 4,331,544</u>	<u>\$ 410,663</u>

At June 30, 2017, three contributors comprised 37% of the contributions receivable and at June 30, 2016, three contributors comprised 52% of the contributions receivable.

NOTE 3 INVENTORY

Inventory consists of the following at June 30:

	<u>2017</u>	<u>2016</u>
Homes in Progress	\$ 4,378,728	\$ 2,630,351
Land and Acquired Property	3,905,514	2,670,903
Building Material	529,458	505,078
Held for Resale	291,925	166,823
Total Inventory	<u>\$ 9,105,625</u>	<u>\$ 5,973,155</u>

TWIN CITIES HABITAT FOR HUMANITY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 4 PROPERTY AND EQUIPMENT

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

	2017		
	Cost	Accumulated Depreciation	Life
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>	
	2016		
	Cost	Accumulated Depreciation	Life
Land	\$ 1,198,825	\$ -	N/A
Buildings and Improvements	7,478,457	611,019	5 - 39 Years
Furniture and Equipment	2,156,777	1,169,023	5 - 7 Years
Vehicles	529,593	443,280	3 - 5 Years
Total	<u>\$ 11,363,652</u>	<u>\$ 2,223,322</u>	
Property and Equipment, Net		<u>\$ 9,140,330</u>	

NOTE 5 LEVERAGED LOANS RECEIVABLE

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

<u>Description</u>	<u>2017</u>	<u>2016</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, 2017 and 2016, 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, 2017 AND 2016

NOTE 6 MORTGAGES RECEIVABLE

An Organization-developed home is considered sold when a formal closing transaction has been finalized. Homes are sold at fair market value based on an appraisal of the property. Contract periods span 20 to 30 years, and monthly payments are no greater than 30% of the family's income at the time of sale. At June 30, 2017 and 2016, the Organization had 862 and 875 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.

Beginning in the fiscal year 2017, 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 who qualify for the Organization's mortgage financing.

The outstanding mortgages receivable held for sale portfolio is \$1,293,400 and \$0- at June 30, 2017 and 2016, 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, 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:

	2017	2016
Mortgages Receivable Held	\$ 67,871,778	\$ 71,664,388
Less: Unamortized Discount	(25,420,963)	(27,650,228)
Less: Allowance for Credit Losses	(75,878)	(75,878)
Total	\$ 42,374,937	\$ 43,938,282

TWIN CITIES HABITAT FOR HUMANITY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 6 MORTGAGES RECEIVABLE (CONTINUED)

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 10.0% 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>2017</u>	<u>2016</u>
Allowance for Credit Losses:		
Balance at Beginning of the Year	\$ 75,878	\$ 75,878
Provision for Loan Losses	-	-
Loans Charged-Off	-	-
Recoveries on Sales of Loans	-	-
Balance at End of Year	<u>\$ 75,878</u>	<u>\$ 75,878</u>

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

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

	<u>2016</u>			
	<u>Current</u>	<u>30-89 Days Past Due</u>	<u>90 Days or More Past Due</u>	<u>Total</u>
Mortgages Receivable	\$ 68,933,699	\$ 1,538,282	\$ 1,192,407	\$ 71,664,388

TWIN CITIES HABITAT FOR HUMANITY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 7 LONG-TERM NOTES PAYABLE

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

<u>Description</u>	<u>2017</u>	<u>2016</u>
<i>Interest-Bearing Notes:</i>		
Notes Payable, 3%, Secured by Specifically Identified Mortgages Receivable, Due in Monthly Installments of \$10,335 with Maturity Dates from March 1, 2018 to December 1, 2019 (a)	\$ 176,311	\$ 293,132
Note Payable, 1%, Secured by Specifically Identified Mortgages Receivable, Due in Monthly Installments of \$1,738 through March 1, 2022 (a)	96,729	116,514
Note Payable, 2.83%, Secured by Specifically Identified Mortgages Receivable, Due in Monthly Installments of \$88,977 through September 1, 2040 (a)	15,286,089	15,911,767
Note Payable, 4.25%, Secured by Specific Mortgages Receivable, Due in Monthly Installments of \$7,683 through July 1, 2023	495,048	564,283
Note Payable, 2.99%, Secured by Specifically Identified Mortgages Receivable, Due in Monthly Installments of \$4,491 through February 1, 2019	87,491	137,899
Note Payable, 3%, Unsecured, Due in Quarterly Interest-Only Installments of \$6,000 with Principal Balance Due in Full on December 27, 2017	800,000	800,000
Note Payable, 4.8%, Secured by Specific Mortgages Receivable, Due in Quarterly Installments of \$2,137 through June 30, 2018	2,843	17,461
Note Payable, 3.75%, Secured by specifically identified mortgages receivable, Due in monthly installments of \$7,505 through May 1, 2021	327,572	403,600
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	-
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%, Unsecured, Due in monthly installments of \$4,491 through February 1, 2020	137,900	186,805

TWIN CITIES HABITAT FOR HUMANITY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 7 LONG-TERM NOTES PAYABLE (CONTINUED)

<u>Description</u>	<u>2017</u>	<u>2016</u>
<i>Interest-Bearing Notes (Continued):</i>		
Note Payable, 3.40%, Unsecured, Due in monthly installments of \$4,540 through March 1, 2022	\$ 238,355	\$ -
Note Payable, 4%, Unsecured, Due in monthly installments of \$7,593 through July 1, 2022	418,792	491,318
Note Payable, 3%, Secured by pledged residential loans and mortgages. Due in monthly installments of \$3,557 with principal balance due on April 1, 2042 (a)	741,494	299,995
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	<u>4,700,000</u>	<u>3,700,000</u>
Subtotal - Interest-Bearing Notes	26,508,624	24,922,774
<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	<u>2,653,100</u>	<u>2,653,100</u>
Subtotal - Qualified Low Income Community Investment Notes	9,120,000	9,120,000
<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 \$67,338 with Balances Due through June 1, 2043 (a)	10,369,869	11,178,533

TWIN CITIES HABITAT FOR HUMANITY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 7 LONG-TERM NOTES PAYABLE (CONTINUED)

<u>Description</u>	<u>2017</u>	<u>2016</u>
<i>Noninterest Bearing Notes (Continued):</i>		
Notes Payable, Noninterest-bearing, Unsecured, Due in Monthly Installments to Habitat for Humanity International for the SHOP program over 48 months (b)	\$ 363,379	\$ 487,814
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	36,000	48,000
Note Payable, Noninterest-bearing, Unsecured, Amount Due in Yearly Installments of \$6,667 through January 1, 2036	<u>126,663</u>	<u>133,330</u>
Subtotal - Noninterest Bearing Notes	10,895,911	11,847,677
<i>Forgivable Notes:</i>		
Note Payable, Noninterest-bearing, Unsecured, No Payments Required, Forgivable on February 1, 2018 Contingent on Specific Requirements Being Met	110,000	110,000
Note Payable, Noninterest-bearing, Unsecured, No Payments Required, Forgivable on January 31, 2019 Contingent on Specific Requirements Being Met	70,000	70,000
Note Payable, Noninterest-bearing, Unsecured, No Payments Required, Forgivable on January 31, 2019 Contingent on Specific Requirements Being Met	80,000	80,000
Notes Payable, Noninterest-bearing, Unsecured, No Payments Required, Forgivable between July 1, 2032 and June 1, 2038 Contingent on Specific Requirements Being Met	523,273	523,274
Notes Payable, Noninterest-bearing, Unsecured, No Payments Required, Forgivable Contingent on Specific Requirements Being Met	<u>788,739</u>	<u>343,132</u>
Subtotal - Forgivable Notes	<u>1,572,012</u>	<u>1,126,406</u>
Total	48,096,547	47,016,857
Less: Unamortized Discount	(6,008,793)	(6,429,458)
Less: Unamortized Origination Fees	<u>(473,390)</u>	<u>(508,575)</u>
Long-Term Notes Payable, Net	<u>\$ 41,614,364</u>	<u>\$ 40,078,824</u>

- (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

TWIN CITIES HABITAT FOR HUMANITY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

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>
2018	\$ 2,930,622	\$ 898,739
2019	3,056,344	150,000
2020	10,427,815	-
2021	2,215,528	-
2022	3,092,620	-
Thereafter	24,801,606	523,273
Total	<u>\$ 46,524,535</u>	<u>\$ 1,572,012</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. Notes payable are secured by pledged mortgages receivable equal to the notes balance.

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.

Subsequent Debt Activity

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

- Warehouse line of credit for TCHFH Lending Inc. to borrow up to \$3,000,000 at 3.25% interest rate. The line expires August 2018.
- Extension to existing \$800,000 note payable of 3.00% to October 2022 with a new loan balance limit of \$1,300,000.
- Program Related Investment loan of \$1,000,000 at 1.50% due December 2027.

TWIN CITIES HABITAT FOR HUMANITY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 8 LINE OF CREDIT

The Organization has a revolving line of credit, expiring February 24, 2018, that permits borrowings up to \$500,000. Interest is calculated at 2.85% plus the one-month LIBOR rate. The agreement is secured by assets held by the Organization, excluding mortgages receivable, and has certain financial and nonfinancial covenants for which the Organization must comply with. As of June 30, 2017 and 2016, there was an outstanding balance of \$-0- and \$500,000, respectively.

The Organization has a second revolving line of credit, expiring February 24, 2018, that permits borrowings up to \$2,500,000. Interest is calculated at 2.85% plus the one-month LIBOR rate. The agreement is secured by multi-year donation pledges. As of June 30, 2017 and 2016, there was an outstanding balance of \$247,749 and \$247,749, respectively.

NOTE 9 LEASES

The Organization leases a warehouse facility, office space for the 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, 2017 and 2016 was \$536,039 and \$368,698, respectively.

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

<u>Year Ending June 30,</u>	<u>Amount</u>
2018	\$ 320,553
2019	261,310
2020	258,740
2021	261,803
2022	133,195
2023	78,522
Total Minimum Lease Payments	<u>\$ 1,314,123</u>

NOTE 10 IN-KIND CONTRIBUTIONS

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

	<u>2017</u>	<u>2016</u>
Land and Building Materials	\$ 316,546	\$ 1,052,968
Tools and Equipment	728,782	478,089
Specialized Labor	137,178	28,605
Subtotal In-Kind Contributions	<u>1,182,506</u>	<u>1,559,662</u>
Special Event Donated Material	124,591	164,283
Total In-Kind Contributions	<u>\$ 1,307,097</u>	<u>\$ 1,723,945</u>

TWIN CITIES HABITAT FOR HUMANITY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 10 IN-KIND CONTRIBUTIONS (CONTINUED)

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

	2017	2016
Cost of Homes Sold	\$ 836,045	\$ 1,136,809
Specialized Labor and Services	137,178	28,605
Materials and Equipment	728,782	478,089
Special Event Direct Benefits	124,591	164,283
Total In-Kind Expenses	\$ 1,826,596	\$ 1,807,786

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 \$108,403 and \$102,673 for the years ended June 30, 2017 and 2016, respectively.

NOTE 12 TEMPORARILY RESTRICTED

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

	2017	2016
Time Restricted Pledges	\$ 4,075,286	\$ 317,717
Restricted for Program Purposes	632,292	668,704
Unappropriated Endowment Earnings	47,172	25,817
Restricted for Future Capital Projects	-	300,000
Total Temporarily Restricted Net Assets	\$ 4,754,750	\$ 1,312,238

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

	2017	2016
Net Pledges Received	\$ 271,948	\$ 347,147
Program Expenditures Incurred	462,870	566,260
Net Assets Released from Restrictions - Capital	300,000	-
Total Releases from Restriction	\$ 1,034,818	\$ 913,407

TWIN CITIES HABITAT FOR HUMANITY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

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:

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor Restricted Endowment Funds	\$ -	\$ 47,172	\$ 665,363	\$ 712,535

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor Restricted Endowment Funds	\$ -	\$ 25,817	\$ 665,363	\$ 691,180

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

	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	\$ -	\$ 47,172	\$ 665,363	\$ 712,535

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Fund Balance, June 30, 2015	\$ -	\$ 25,124	\$ 665,363	\$ 690,487
Contributions	-	-	-	-
Investment Income	-	693	-	693
Appropriations	-	-	-	-
Endowment Fund Balance, June 30, 2016	\$ -	\$ 25,817	\$ 665,363	\$ 691,180

TWIN CITIES HABITAT FOR HUMANITY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 13 ENDOWMENT (CONTINUED)

Donor Restricted Endowments (Continued)

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

Investment Objectives and Strategies

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

Spending Policy

The board of directors authorized appropriations as it deems prudent. The Organization has a practice of appropriating for distribution only investment earnings in excess of original endowment principle. Unappropriated earnings for the fiscal years 2009 - 2017 total \$47,172.

NOTE 14 INVESTMENTS

Investments at market value consisted of the following at June 30, 2017:

	<u>2017</u>	<u>2016</u>
Mutual Funds	\$ 336,274	\$ -
Stocks	298,643	-
Exchange-Traded and Closed-End Funds	62,098	-
Total	<u>\$ 697,015</u>	<u>\$ -</u>

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

	<u>2017</u>	<u>2016</u>
Interest and Dividend Income, Net of Fees	\$ 5,342	\$ -
Unrealized Gain	16,013	-
Total	<u>\$ 21,355</u>	<u>\$ -</u>

TWIN CITIES HABITAT FOR HUMANITY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

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, 2017:

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

The Organization did not measure any assets or liabilities at fair value as of June 30, 2016.

TWIN CITIES HABITAT FOR HUMANITY, INC.
CONSOLIDATING BALANCE SHEET
JUNE 30, 2017

	Twin Cities Habitat for Humanity, Inc.	Lending, Inc.	TCHFH St. Paul HQ, LLC	Eliminations	Consolidated
ASSETS					
Cash and Cash Equivalents	\$ 4,772,157	\$ 17,604	\$ 116,774	\$ -	\$ 4,906,535
Investments	697,015	-	-	-	697,015
Equity Investment in TCHFH St. Paul HQ, LLC	-	-	-	-	-
Accounts Receivable	928,250	-	-	-	928,250
Contributions Receivable, Net	4,075,286	-	-	-	4,075,286
Related Entity Receivable	1,299,863	156,601	-	(1,456,464)	-
Inventory	9,105,625	-	-	-	9,105,625
Prepaid and Other Assets	810,703	-	-	-	810,703
Leveraged Loans Receivable	6,466,900	-	-	-	6,466,900
Property and Equipment, Net	847,970	-	8,801,250	(434,287)	9,214,933
Mortgages Receivable:					
Mortgages Receivable Held, at Face Value	67,871,778	-	-	-	67,871,778
Mortgages Receivable Held for Sale, at Face Value	-	1,293,400	-	-	1,293,400
Less: Unamortized Discount and Allowance	(25,496,841)	-	-	-	(25,496,841)
Mortgages Receivable, Net	<u>42,374,937</u>	<u>1,293,400</u>	<u>-</u>	<u>-</u>	<u>43,668,337</u>
 Total Assets	 <u>\$ 71,378,706</u>	 <u>\$ 1,467,605</u>	 <u>\$ 8,918,024</u>	 <u>\$ (1,890,751)</u>	 <u>\$ 79,873,584</u>
LIABILITIES AND NET ASSETS					
LIABILITIES					
Accounts Payable	\$ 766,703	\$ 705	\$ -	\$ -	\$ 767,408
Accrued Expenses	757,811	-	17,594	-	775,405
Related Entity Payable	156,601	1,296,900	2,963	(1,456,464)	-
Line of Credit	247,749	-	-	-	247,749
Long-Term Notes Payable:					
Long-Term Notes Payable at Face Value	38,976,547	-	9,120,000	-	48,096,547
Less: Unamortized Discount and Origination Fees	(6,482,183)	-	-	-	(6,482,183)
Long-Term Notes Payable, Net	<u>32,494,364</u>	<u>-</u>	<u>9,120,000</u>	<u>-</u>	<u>41,614,364</u>
 Total Liabilities	 34,423,228	 1,297,605	 9,140,557	 (1,456,464)	 43,404,926
NET ASSETS					
Unrestricted	31,535,365	170,000	(222,533)	(434,287)	31,048,545
Temporarily Restricted	4,754,750	-	-	-	4,754,750
Permanently Restricted	665,363	-	-	-	665,363
Total Net Assets	<u>36,955,478</u>	<u>170,000</u>	<u>(222,533)</u>	<u>(434,287)</u>	<u>36,468,658</u>
 Total Liabilities and Net Assets	 <u>\$ 71,378,706</u>	 <u>\$ 1,467,605</u>	 <u>\$ 8,918,024</u>	 <u>\$ (1,890,751)</u>	 <u>\$ 79,873,584</u>

**TWIN CITIES HABITAT FOR HUMANITY, INC.
CONSOLIDATING STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2017**

	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)	\$ 4,420,980	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,420,980	\$ -	\$ -
Interest Income	164,276	-	-	16,051	-	-	180,327	-	-
ReStore Sales (Net of Direct Expense of \$1,247,436)	193,281	-	-	-	-	-	193,281	-	-
Service and Other Revenue from Related Entity	120,706	-	-	350,887	-	(471,593)	-	-	-
Other	4,009	21,355	-	-	240,000	(240,000)	4,009	21,355	-
Total Operating Revenue	4,903,252	21,355	-	366,938	240,000	(711,593)	4,798,597	21,355	-
Support:									
Foundations	845,725	511,000	-	-	-	-	845,725	511,000	-
Corporations	2,806,413	298,322	-	-	-	-	2,806,413	298,322	-
Religious and Civic Organizations	527,459	68,987	-	-	-	-	527,459	68,987	-
Individuals	4,344,317	3,577,666	-	-	-	-	4,344,317	3,577,666	-
Public Sector Funds	1,738,538	-	-	-	-	-	1,738,538	-	-
Contribution from Related Entity	-	-	-	749,076	-	(749,076)	-	-	-
In-Kind	1,182,506	-	-	-	-	-	1,182,506	-	-
Special Events (Net of Direct Expense of \$343,465)	322,431	-	-	-	-	-	322,431	-	-
Total Support	11,767,389	4,455,975	-	749,076	-	(749,076)	11,767,389	4,455,975	-
Net Assets Released from Restrictions	1,034,818	(1,034,818)	-	-	-	-	1,034,818	(1,034,818)	-
Total Operating Revenue and Support	17,705,459	3,442,512	-	1,116,014	240,000	(1,460,669)	17,600,804	3,442,512	-
OPERATING EXPENSES									
Program Services	14,864,951	-	-	873,370	464,727	(1,424,274)	14,778,774	-	-
Management and General	743,536	-	-	8,731	26,757	(14,554)	764,470	-	-
Fundraising	2,182,552	-	-	63,913	95,336	(49,462)	2,292,339	-	-
Total Operating Expenses	17,791,039	-	-	946,014	586,820	(1,488,290)	17,835,583	-	-
OPERATING INCREASE (DECREASE) IN NET ASSETS	(85,580)	3,442,512	-	170,000	(346,820)	27,621	(234,779)	3,442,512	-
NONOPERATING ACTIVITIES									
Contribution of Below Market Interest Rate Debt	310,696	-	-	-	-	-	310,696	-	-
Home Sales Mortgage Discount	(193,945)	-	-	-	-	-	(193,945)	-	-
Amortization of Discount on Mortgages	2,423,210	-	-	-	-	-	2,423,210	-	-
Amortization of Discount on Long-Term Notes Payable	(777,796)	-	-	-	-	-	(777,796)	-	-
Change in Equity Investment in TCHFH St. Paul HQ, LLC	(146,402)	-	-	-	-	146,402	-	-	-
NONOPERATING INCREASE IN NET ASSETS	1,615,763	-	-	-	-	146,402	1,762,165	-	-
TOTAL INCREASE (DECREASE) IN NET ASSETS	1,530,183	3,442,512	-	170,000	(346,820)	174,023	1,527,386	3,442,512	-
Net Assets - Beginning of Year	30,005,182	1,312,238	665,363	-	124,287	(608,310)	29,521,159	1,312,238	665,363
NET ASSETS - END OF YEAR	<u>\$ 31,535,365</u>	<u>\$ 4,754,750</u>	<u>\$ 665,363</u>	<u>\$ 170,000</u>	<u>\$ (222,533)</u>	<u>\$ (434,287)</u>	<u>\$ 31,048,545</u>	<u>\$ 4,754,750</u>	<u>\$ 665,363</u>