

TWIN CITIES HABITAT FOR HUMANITY
CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
YEARS ENDED JUNE 30, 2021 AND 2020



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**TWIN CITIES HABITAT FOR HUMANITY
TABLE OF CONTENTS
YEARS ENDED JUNE 30, 2021 AND 2020**

INDEPENDENT AUDITORS' REPORT	1
CONSOLIDATED FINANCIAL STATEMENTS	
CONSOLIDATED BALANCE SHEETS	3
CONSOLIDATED STATEMENTS OF ACTIVITIES	4
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES	6
CONSOLIDATED STATEMENTS OF CASH FLOWS	8
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS	9
SUPPLEMENTARY INFORMATION	
CONSOLIDATING BALANCE SHEET	29
CONSOLIDATING STATEMENT OF ACTIVITIES	30



INDEPENDENT AUDITORS' REPORT

Finance Committee
Twin Cities Habitat for Humanity
St. Paul, Minnesota

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Twin Cities Habitat for Humanity, which comprise the consolidated balance sheets as of June 30, 2021 and 2020, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Twin Cities Habitat for Humanity as of June 30, 2021 and 2020, 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.

Emphasis-of-Matter Regarding Supplemental Information

Twin Cities Habitat for Humanity, Inc. restated amounts on the supplementary information (consolidating balance sheet and consolidating statement of activities) to reclassify certain line items between the two entities for the year ended June 30, 2021. TCHFH Lending, Inc.'s liabilities were decreased by \$415,000 and its change in net assets was increased by \$415,000. Twin Cities Habitat for Humanity's receivables were decreased by \$415,000 and its change in net assets was decreased by \$415,000. Our opinion is not modified with respect to this matter.



CliftonLarsonAllen LLP

Minneapolis, Minnesota
December 7, 2021, except for the supplementary information,
for which the date is March 22, 2023

**TWIN CITIES HABITAT FOR HUMANITY
CONSOLIDATED BALANCE SHEETS
JUNE 30, 2021 AND 2020**

	2021	2020
ASSETS		
Cash and Cash Equivalents	\$ 14,092,133	\$ 12,234,992
Investments (Note 14)	1,582,991	1,240,962
Accounts Receivable	731,047	932,437
Mortgage Servicing Asset, Net (Note 16)	1,087,597	998,052
Contributions Receivable, Net (Note 2)	3,259,428	3,465,655
Inventory (Note 3)	12,400,727	13,189,967
Land Held in Trust	1,132,782	1,131,221
Prepaid and Other Assets	990,628	551,121
Leveraged Loans Receivable (Note 5)	3,586,500	3,623,316
Property and Equipment, Net (Note 4)	8,427,662	8,950,327
Mortgages Receivable (Note 6):		
Mortgages Receivable Held, at Face Value	50,045,991	54,663,434
Mortgages Receivable Held for Sale, at Face Value	3,107,322	2,334,177
Less: Unamortized Discount and Allowance	<u>(16,434,258)</u>	<u>(18,637,368)</u>
Mortgages Receivable, Net	<u>36,719,055</u>	<u>38,360,243</u>
 Total Assets	 <u>\$ 84,010,550</u>	 <u>\$ 84,678,293</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable	\$ 357,882	\$ 908,990
Accrued Expenses	1,240,473	1,185,724
Line of Credit (Note 8)	4,055,060	3,677,769
Unearned Grant Revenue	2,091,869	3,284,157
Long-Term Notes Payable (Note 7):		
Long-Term Notes Payable, at Face Value	29,536,350	35,873,458
Less: Unamortized Discount and Origination Fees	<u>(4,115,896)</u>	<u>(5,101,371)</u>
Long-Term Notes Payable, Net	<u>25,420,454</u>	<u>30,772,087</u>
 Total Liabilities	 33,165,738	 39,828,727
NET ASSETS		
Without Donor Restrictions	44,328,770	39,537,265
With Donor Restrictions (Note 12 and 13)	6,516,042	5,312,301
Total Net Assets	<u>50,844,812</u>	<u>44,849,566</u>
 Total Liabilities and Net Assets	 <u>\$ 84,010,550</u>	 <u>\$ 84,678,293</u>

See accompanying Notes to Consolidated Financial Statements.

**TWIN CITIES HABITAT FOR HUMANITY
CONSOLIDATED STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2021 AND 2020**

	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
OPERATING REVENUE AND SUPPORT			
Operating Revenue:			
Home Sales (Mortgages Received)	\$ 9,535,092	\$ -	\$ 9,535,092
Investment Income (Loss)	52,261	287,800	340,061
ReStore Sales (Net of Direct Expense of \$2,057,062 and \$1,546,423, Respectively)	421,053	-	421,053
PPP Loan Forgiveness	1,730,100	-	1,730,100
Other	529,775	-	529,775
Total Operating Revenue	<u>12,268,281</u>	<u>287,800</u>	<u>12,556,081</u>
Support:			
Contributions	8,848,830	3,253,291	12,102,121
Public Sector Funds	4,005,983	-	4,005,983
In-Kind (Note 10)	585,490	-	585,490
Special Events (Net of Direct Expense of \$138,258 and \$264,704, Respectively)	810,370	-	810,370
Total Support	<u>14,250,673</u>	<u>3,253,291</u>	<u>17,503,964</u>
Net Assets Released from Restrictions (Note 12)	<u>2,337,350</u>	<u>(2,337,350)</u>	<u>-</u>
Total Operating Revenue and Support	<u>28,856,304</u>	<u>1,203,741</u>	<u>30,060,045</u>
OPERATING EXPENSES			
Program Services	20,000,391	-	20,000,391
Management and General	2,546,425	-	2,546,425
Fundraising	2,755,834	-	2,755,834
Total Operating Expenses	<u>25,302,650</u>	<u>-</u>	<u>25,302,650</u>
OPERATING INCREASE (DECREASE) IN NET ASSETS	<u>3,553,654</u>	<u>1,203,741</u>	<u>4,757,395</u>
NONOPERATING ACTIVITIES			
Contribution of Below Market Interest Rate Debt	-	-	-
Gain (Loss) on New Market Tax Credit	-	-	-
Amortization of Discount on Mortgages	2,203,110	-	2,203,110
Amortization of Discount on Long-Term Notes Payable	(965,259)	-	(965,259)
NONOPERATING INCREASE IN NET ASSETS	<u>1,237,851</u>	<u>-</u>	<u>1,237,851</u>
TOTAL INCREASE (DECREASE) IN NET ASSETS	<u>4,791,505</u>	<u>1,203,741</u>	<u>5,995,246</u>
Net Assets - Beginning of Year	<u>39,537,265</u>	<u>5,312,301</u>	<u>44,849,566</u>
NET ASSETS - END OF YEAR	<u>\$ 44,328,770</u>	<u>\$ 6,516,042</u>	<u>\$ 50,844,812</u>

See accompanying Notes to Consolidated Financial Statements.

**TWIN CITIES HABITAT FOR HUMANITY
CONSOLIDATED STATEMENTS OF ACTIVITIES (CONTINUED)
YEARS ENDED JUNE 30, 2021 AND 2020**

2020		
Without Donor Restrictions	With Donor Restrictions	Total
\$ 9,439,633	\$ -	\$ 9,439,633
211,082	(28,893)	182,189
18,548	-	18,548
-	-	-
877,315	-	877,315
<u>10,546,578</u>	<u>(28,893)</u>	<u>10,517,685</u>
9,653,185	1,909,108	11,562,293
3,711,112	-	3,711,112
1,000,148	-	1,000,148
542,126	-	542,126
<u>14,906,571</u>	<u>1,909,108</u>	<u>16,815,679</u>
<u>2,740,870</u>	<u>(2,740,870)</u>	<u>-</u>
28,194,019	(860,655)	27,333,364
21,190,616	-	21,190,616
2,382,650	-	2,382,650
2,482,262	-	2,482,262
<u>26,055,528</u>	<u>-</u>	<u>26,055,528</u>
2,138,491	(860,655)	1,277,836
344	-	344
2,651,100	-	2,651,100
2,127,151	-	2,127,151
<u>(717,861)</u>	<u>-</u>	<u>(717,861)</u>
<u>4,060,734</u>	<u>-</u>	<u>4,060,734</u>
6,199,225	(860,655)	5,338,570
<u>33,338,040</u>	<u>6,172,956</u>	<u>39,510,996</u>
<u>\$ 39,537,265</u>	<u>\$ 5,312,301</u>	<u>\$ 44,849,566</u>

See accompanying Notes to Consolidated Financial Statements.

**TWIN CITIES HABITAT FOR HUMANITY
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2021**

	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 Homes Sold	\$ 9,999,170	\$ -	\$ 278,123	\$ -	\$ -	\$ 10,277,293	\$ 34	\$ -	\$ 34	\$ 10,277,327
Cost of Homes - In-Kind	677,911	-	9,560	-	-	687,471	-	-	-	687,471
Salaries, Taxes, and Benefits	4,184,077	601,794	891,540	878,009	428,689	6,984,109	1,805,127	1,740,558	3,545,685	10,529,794
Professional Fees	224,603	38,510	62,013	8,787	37,880	371,793	265,920	317,109	583,029	954,822
Printing and Media	4,388	168	3,519	15,518	3,462	27,055	249,962	322,945	572,907	599,962
Postage	5,219	972	1,024	529	745	8,489	24,625	25,607	50,232	58,721
Insurance	136,097	29,752	27,512	-	11,100	204,461	31,505	44,741	76,246	280,707
Telephone	41,744	1,574	6,343	5,417	1,549	56,627	4,169	6,081	10,250	66,877
Occupancy	241,196	5,733	56,599	665,499	7,793	976,820	22,687	50,543	73,230	1,050,050
Vehicle Fleet	34,295	1,046	8,624	41,597	1,314	86,876	2,893	6,288	9,181	96,057
General Supplies, Tools, and Site Supplies	116,726	2,052	17,426	20,209	1,853	158,266	10,836	235,295	246,131	404,397
Equipment Lease and Maintenance	10,228	778	2,010	4,697	690	18,403	1,984	2,972	4,956	23,359
Warranty	2,049	-	-	-	-	2,049	-	-	-	2,049
Meals and Travel	14,838	12	729	1,377	168	17,124	393	6,394	6,787	23,911
Staff Development	22,697	3,648	4,112	1,175	5,880	37,512	35,856	12,000	47,856	85,368
Resale Merchandise	1,749	-	217	166,706	16	168,688	9	16	25	168,713
Habitat International Tithe and Fees	260,000	-	-	-	-	260,000	-	-	-	260,000
Property Taxes	1,827	144	3,000	-	304	5,275	346	692	1,038	6,313
Loan Servicing and Bank Fees	432	160,420	67	47,556	133	208,608	38,359	37,883	76,242	284,850
Miscellaneous	6,222	-	-	379	88	6,689	12,655	341	12,996	19,685
Affordability Gap and Closing Cost Subsidies	749	362,958	374	-	-	364,081	-	-	-	364,081
Interest Expense and Discount Amortization	-	1,536,134	-	-	-	1,536,134	-	-	-	1,536,134
Depreciation	260,741	24,613	52,944	199,607	20,984	558,889	39,065	84,627	123,692	682,581
Total	\$ 16,246,958	\$ 2,770,308	\$ 1,425,736	\$ 2,057,062	\$ 522,648	\$ 23,022,712	\$ 2,546,425	\$ 2,894,092	\$ 5,440,517	\$ 28,463,229
Operating	\$ 16,246,958	\$ 1,805,049	\$ 1,425,736	\$ -	\$ 522,648	\$ 20,000,391	\$ 2,546,425	\$ 2,755,834	\$ 5,302,259	\$ 25,302,650
Nonoperating - Amortization of Discount on Long-Term Notes Payable	-	965,259	-	-	-	965,259	-	-	-	965,259
Expenses Netted Against Revenues	-	-	-	2,057,062	-	2,057,062	-	138,258	138,258	2,195,320
Total	\$ 16,246,958	\$ 2,770,308	\$ 1,425,736	\$ 2,057,062	\$ 522,648	\$ 23,022,712	\$ 2,546,425	\$ 2,894,092	\$ 5,440,517	\$ 28,463,229
Percentage	57.08 %	9.73 %	5.01 %	7.23 %	1.84 %	80.89 %	8.95 %	10.17 %	19.11 %	100.00 %

See accompanying Notes to Consolidated Financial Statements.

**TWIN CITIES HABITAT FOR HUMANITY
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2020**

	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 Homes Sold	\$ 9,813,488	\$ -	\$ 452,126	\$ -	\$ -	\$ 10,265,614	\$ -	\$ -	\$ -	\$ 10,265,614
Cost of Homes - In-Kind	996,819	-	20,637	-	-	1,017,456	-	-	-	1,017,456
Salaries, Taxes, and Benefits	4,430,542	507,951	913,846	752,312	400,829	7,005,480	1,663,246	1,698,469	3,361,715	10,367,195
Professional Fees	221,889	53,224	24,381	12,287	24,569	336,350	227,859	226,408	454,267	790,617
Printing and Media	2,105	394	2,242	7,739	2,649	15,129	229,212	305,394	534,606	549,735
Postage	6,362	1,521	1,327	483	600	10,293	28,339	29,091	57,430	67,723
Insurance	114,670	34,571	23,613	-	10,301	183,155	23,154	32,812	55,966	239,121
Telephone	39,167	1,369	6,860	3,330	1,815	52,541	3,712	5,617	9,329	61,870
Occupancy	249,310	5,553	66,323	483,971	9,542	814,699	13,767	48,824	62,591	877,290
Vehicle Fleet	46,170	1,445	13,375	27,088	2,672	90,750	3,581	6,888	10,469	101,219
General Supplies, Tools, and Site Supplies	169,617	2,701	28,386	31,558	8,074	240,336	15,006	165,068	180,074	420,410
Equipment Lease and Maintenance	10,446	603	1,935	7,806	679	21,469	1,494	4,877	6,371	27,840
Meals and Travel	30,581	1,223	6,367	3,235	19,404	60,810	13,790	65,021	78,811	139,621
Staff Development	53,887	4,183	10,883	450	6,961	76,364	38,473	25,344	63,817	140,181
Habitat International Tithe and Fees	242,125	-	-	-	-	242,125	-	-	-	242,125
Loan Servicing and Bank Fees	351	234,331	54	38,442	135	273,313	36,826	24,950	61,776	335,089
Miscellaneous	18,517	912	5,049	46,768	1,062	72,308	6,402	485	6,887	79,195
Affordability Gap and Closing Cost Subsidies	-	589,203	-	-	-	589,203	-	-	-	589,203
Interest Expense and Discount Amortization	94,256	1,440,453	19,409	-	8,467	1,562,585	19,033	26,970	46,003	1,608,588
Depreciation	287,896	22,930	59,437	130,954	23,703	524,920	58,756	80,748	139,504	664,424
Total	\$ 16,828,198	\$ 2,902,567	\$ 1,656,250	\$ 1,546,423	\$ 521,462	\$ 23,454,900	\$ 2,382,650	\$ 2,746,966	\$ 5,129,616	\$ 28,584,516
Operating	\$ 16,828,198	\$ 2,184,706	\$ 1,656,250	\$ -	\$ 521,462	\$ 21,190,616	\$ 2,382,650	\$ 2,482,262	\$ 4,864,912	\$ 26,055,528
Nonoperating - Amortization of Discount on Long-Term Notes Payable	-	717,861	-	-	-	717,861	-	-	-	717,861
Expenses Netted Against Revenues	-	-	-	1,546,423	-	1,546,423	-	264,704	264,704	1,811,127
Total	\$ 16,828,198	\$ 2,902,567	\$ 1,656,250	\$ 1,546,423	\$ 521,462	\$ 23,454,900	\$ 2,382,650	\$ 2,746,966	\$ 5,129,616	\$ 28,584,516
Percentage	58.87 %	10.15 %	5.79 %	5.41 %	1.82 %	82.05 %	8.34 %	9.61 %	17.95 %	100.00 %

See accompanying Notes to Consolidated Financial Statements.

**TWIN CITIES HABITAT FOR HUMANITY
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2021 AND 2020**

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in Net Assets	\$ 5,995,246	\$ 5,338,570
Adjustments to Reconcile Increase (Decrease) in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Depreciation	682,581	664,424
In-Kind Contributions of Goods	(527,459)	(946,771)
Discounts on Current-Year Borrowings Under Long-Term Notes Payable	-	(344)
Amortization of Discounts on Mortgages Receivable	(2,203,110)	(2,127,151)
Non-Cash PPP Loan Forgiveness	(1,730,100)	-
Recognition of Earned Advanced Grant Funds	(1,415,037)	(876,132)
Origination of Mortgages Held for Sale	(16,296,200)	(21,399,308)
Proceeds from Sale of Mortgages Held for Sale	15,504,315	24,420,765
Amortization of Discount on Long-Term Notes Payable	965,259	717,861
Gain on Sale for Mortgage Servicing Rights	(89,545)	(474,840)
Gain on New Market Tax Credit	-	(2,651,100)
Other	(135,118)	71,287
Changes in Operating Assets and Liabilities:		
Accounts Receivable	201,390	114,893
Contributions Receivable, Net	101,078	1,273,959
Leverage Loan Receivable	36,816	34,816
Inventory	1,774,038	1,477,239
Prepaid and Other Assets	(439,507)	72,989
Accounts Payable	(551,108)	87,367
Accrued Expenses	54,749	367,120
Unearned Grant Revenue	222,749	2,266,287
Net Cash Provided by Operating Activities	2,151,037	8,431,931
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments Received on Mortgages Held	4,158,543	3,800,367
Purchase of Investments	(761,261)	(500,000)
Proceeds from Sale of Investments	692,203	-
Proceeds from the Sale of Property and Equipment	30,000	5,750
Purchases of Property and Equipment	(183,664)	(724,649)
Net Cash Provided by Investing Activities	3,935,821	2,581,468
CASH FLOWS FROM FINANCING ACTIVITIES		
Net Proceeds (Payments) on Line of Credit	377,291	(3,264,620)
Payments on Long-Term Notes Payable	(6,319,608)	(3,045,551)
Borrowings on Long-Term Notes Payable	1,712,600	1,734,350
Net Cash Used by Financing Activities	(4,229,717)	(4,575,821)
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,857,141	6,437,578
Cash and Cash Equivalents - Beginning of Year	12,234,992	5,797,414
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 14,092,133	\$ 12,234,992
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest Paid	\$ 843,826	\$ 960,728
NONCASH ITEMS		
Inventory and Equipment Contributed by Donors	\$ 585,490	\$ 1,000,148
Contributions and Pledge Payments of Investment Securities	\$ 465,054	\$ 796,049

See accompanying Notes to Consolidated Financial Statements.

**TWIN CITIES HABITAT FOR HUMANITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organizational Purpose

Twin Cities Habitat for Humanity is a Minnesota nonprofit corporation, incorporated in 1985. The mission of Twin Cities Habitat for Humanity (TCHFH or the Organization) is to bring people together to create, preserve, and promote affordable homeownership and advance racial equity in housing. 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-and moderate-income households. 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 Well at Home" 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, staff, and subcontractors provide these services. In circumstances where repairs are more extensive, homeowners take out a loan through Federal Home Loan Bank sources. The Mortgage Foreclosure Prevention Program is available for homeowners in need of foreclosure prevention counseling or intervention.

TCHFH operates two ReStore Home Improvement Outlets, which sell donated building materials and supplies to the general public. The ReStore Outlets rely significantly on volunteers to staff store operations, providing them with an opportunity to advance the TCHFH mission. Through the activities of the ReStore Outlets, TCHFH is also able to divert tons of usable materials from landfills each year. ReStore outlet net profits help fund TCHFH 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 and community outreach.

Basis of Consolidation

The consolidated financial statements include the activities of TCHFH Lending, Inc. as TCHFH is the sole member of TCHFH Lending, Inc.

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

**TWIN CITIES HABITAT FOR HUMANITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Consolidated Financial Statement Presentation

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

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

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

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

Nonoperating activities include all noncash activities relating to discounting mortgages receivable, debt and contributions for capital purposes, and the close out of a previous new market tax credit transaction.

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, unless held for reinvestment as part of the investment portfolio or otherwise restricted or designated.

The Organization maintains checking and savings accounts. At times, amounts may exceed Federal Deposit Insurance Corporation insured limits.

Investments

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

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.

TWIN CITIES HABITAT FOR HUMANITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (Continued)

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

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

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

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

Accounts Receivable

Accounts receivable are recorded at net realizable value. The Organization accounts for doubtful accounts receivable by the reserve method, based on management's best estimate and past history. All accounts receivable are due on demand. Receivables are assessed individually for collectibility based on the surrounding facts and circumstances and management's past history. When all collection efforts have been exhausted, the accounts are written off against the related allowance. As of June 30, 2021 and 2020, no allowance for doubtful accounts was necessary for accounts receivable.

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.

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.

TWIN CITIES HABITAT FOR HUMANITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 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, 2021 and 2020.

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.

At June 30, 2021 and 2020, the Organization has individually evaluated mortgage notes for impairment. Management believes all mortgages receivable are realizable through either collection or foreclosure proceeds if not collected, with the exception of one program. Due to current market conditions and credit quality, one mortgage program recorded an allowance for doubtful accounts of \$69,071 as of June 30, 2021 and 2020.

At June 30, 2021 and 2020, the Organization has individually evaluated leveraged loans receivable for impairment and no allowance is deemed necessary.

**TWIN CITIES HABITAT FOR HUMANITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions Receivable

Contributions receivable are recorded at net realizable value. Conditional pledges are not included as support until such time as the conditions are substantially met. Donor-advised funds (DAF) are controlled by the fund, not the individual donor, so individual pledges from a DAF are not recorded until they are received or pledged from the fund. Receivables are assessed individually for collectibility based on the surrounding facts and circumstances and management's past history. When all collection efforts have been exhausted, the accounts are written off against the related allowance. As of June 30, 2021 and 2020, the allowance for doubtful accounts was \$36,078.

Inventory

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

Land Held in Trust

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

Property and Equipment

Property and equipment purchased are stated at cost. The Organization capitalizes items over \$1,000. Contributed items are recorded at fair market value at date of donation. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulation, contributions of property and equipment are recorded as without donor restriction. Depreciation of property and equipment is computed on a straight-line basis over the estimated useful lives of the assets.

In-Kind Contributions

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

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. 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.

**TWIN CITIES HABITAT FOR HUMANITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions

The organization recognizes contributions when cash, securities or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Conditional promises to give – that is, those with a measurable performance or other barrier and a right of return – are not recognized until the conditions on which they depend have been met.

Public Sector Funds

A portion of the Organization's revenue is derived from cost reimbursable federal, state and local government contracts and grants, which are conditioned upon certain performance requirements and/ or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Organization has incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as unearned grant revenue in the consolidated statement of financial position. The Organization has been awarded cost reimbursable grants of \$9,248,148 that have not been recognized as revenue at June 30, 2021 because qualifying expenditures have not yet been incurred, with an advance payment of \$2,091,869 recognized in the consolidated statement of financial position as unearned grant revenue.

Income Taxes

The Organization 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 is not a private foundation and contributions to the Organization qualify as charitable tax deductions by the contributor. TCHFH Lending, Inc. is a supporting organization of the Organization.

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

TWIN CITIES HABITAT FOR HUMANITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Paycheck Protection Program

On April 6, 2020, the Organization received a loan from Sunrise Banks N.A. in the amount of \$1,730,100 to fund payroll, rent, utilities, and interest on mortgages and existing debt through the Paycheck Protection Program (the "PPP Loan"). In February 2021, the SBA formally approved forgiveness. The Organization recognized \$1,730,100 of revenue related to this agreement during the year ended June 30, 2021, which represents the portion of the PPP loan funds for which the performance barriers have been met. The SBA may review funding eligibility and usage of funds for compliance with program requirements based on dollar thresholds and other factors. The amount of liability, if any, from potential noncompliance cannot be determined with certainty; however, management is of the opinion that any review will not have a material adverse impact on the Organization's financial position.

On February 8, 2021, the Organization received a second loan from Sunrise Banks N.A. in the amount of \$1,712,600 to fund payroll, rent, utilities, and interest on mortgages and existing debt through the Paycheck Protection Program (the "PPP Loan"). The PPP Loan bears interest at a fixed rate of 1.0% per annum, has a term of two years, and is unsecured and guaranteed by the U.S. Small Business Administration. Payment of principal and interest is deferred until the date on which the amount of forgiveness is remitted to the lender or, if the Organization fails to apply for forgiveness within 10 months after the covered period, then payment of principal and interest shall begin on that date. These amounts may be forgiven subject to compliance and approval based on the timing and use of these funds in accordance with the program. This is included in long-term notes payable in the consolidated statement of financial position. Subsequent to year-end, the Organization received formal forgiveness from the SBA for the entire amount of the PPP loan.

Unearned Grant Revenue

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

Estimates

Management uses estimates and assumptions in preparing consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). 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.

**TWIN CITIES HABITAT FOR HUMANITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Change in Accounting Principle

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. Subsequent to May 2014, the FASB issued six ASUs to clarify certain matters related to Topic 606. Topic 606 supersedes the revenue recognition requirements in FASB ASC 605, *Revenue Recognition*, and requires the recognition of revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The updates address the complexity of revenue recognition and provide sufficient information to enable financial statement users to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. There was no material impact on the Organization's financial position or changes in net assets upon adoption of the new standard using the modified retrospective approach.

Subsequent Events

In preparing these consolidated financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through December 7, 2021, 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>2021</u>	<u>2020</u>
Gross Contributions Receivable	\$ 3,370,791	\$ 3,561,746
Less: Allowance for Doubtful Accounts	(36,078)	(36,078)
Less: Present Value Discount - 3%	(75,285)	(60,013)
Net Contributions Receivable	<u>\$ 3,259,428</u>	<u>\$ 3,465,655</u>
Amounts Due in:		
Less Than One Year	\$ 1,897,076	\$ 2,174,390
One to Five Years	1,473,715	1,387,356
Total	<u>\$ 3,370,791</u>	<u>\$ 3,561,746</u>

At June 30, 2021 and 2020, three contributors comprised 64% and three contributors comprised 36%, respectively, of the contributions receivable.

TWIN CITIES HABITAT FOR HUMANITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

NOTE 3 INVENTORY

Inventory consists of the following at June 30:

	<u>2021</u>	<u>2020</u>
Homes in Progress	\$ 5,929,110	\$ 6,586,534
Land and Acquired Property	5,601,516	5,890,314
Building Material	561,941	492,045
Held for Resale	308,160	221,074
Total Inventory	<u>\$ 12,400,727</u>	<u>\$ 13,189,967</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>2021</u>		
	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Life</u>
Land	\$ 1,602,372	\$ -	N/A
Buildings and Improvements	8,506,478	2,141,184	5 to 39 Years
Furniture and Equipment	1,510,789	1,154,769	5 to 7 Years
Vehicles	634,706	530,730	3 to 5 Years
Total	<u>\$ 12,254,345</u>	<u>\$ 3,826,683</u>	
Property and Equipment, Net		<u>\$ 8,427,662</u>	
		<u>2020</u>	
	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Life</u>
Land	\$ 1,602,372	\$ -	N/A
Buildings and Improvements	8,514,293	1,747,453	5 to 39 Years
Furniture and Equipment	1,819,659	1,435,635	5 to 7 Years
Vehicles	694,006	496,915	3 to 5 Years
Total	<u>\$ 12,630,330</u>	<u>\$ 3,680,003</u>	
Property and Equipment, Net		<u>\$ 8,950,327</u>	

**TWIN CITIES HABITAT FOR HUMANITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020**

NOTE 5 LEVERAGED LOANS RECEIVABLE

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

<u>Description</u>	<u>2021</u>	<u>2020</u>
Investment in Leveraged Lender, 0.694151%, Due in interest-only installments through May 5, 2025, Commencing August 23, 2025 due in semi-annual installments of \$38,120 with principal due on August 22, 2048.	<u>\$ 3,586,500</u>	<u>\$ 3,623,316</u>
Total	<u><u>\$ 3,586,500</u></u>	<u><u>\$ 3,623,316</u></u>

The loans are secured by substantially all assets of the borrower. As of June 30, 2021 and 2020, the Organization has not reserved any allowance for losses on the leveraged loan receivable, as this loan is being collected consistent with its 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, 2021 and 2020, the Organization had 749 and 781 mortgages outstanding, respectively.

When the first mortgage on each home is less than the market value, the Organization also provides a second mortgage for the difference between the first mortgage and market value. The second mortgage, which is forgiven at the end of the first mortgage term, is assumed to have no economic value and, accordingly, is not recognized in the Organization's financial statements unless such mortgage becomes collectible in accordance with the terms of the mortgage agreement.

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

The outstanding mortgages receivable held for sale portfolio is \$3,107,322 and \$2,334,177 at June 30, 2021 and 2020, 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, 2021 and 2020.

**TWIN CITIES HABITAT FOR HUMANITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020**

NOTE 6 MORTGAGES RECEIVABLE (CONTINUED)

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>2021</u>	<u>2020</u>
Mortgages Receivable Held	\$ 50,045,991	\$ 54,663,434
Less: Unamortized Discount	(16,365,187)	(18,568,297)
Less: Allowance for Credit Losses	(69,071)	(69,071)
Total	<u>\$ 33,611,733</u>	<u>\$ 36,026,066</u>

The held mortgages receivable have been discounted in order to reflect their economic value. The interest rates used to determine the discount range from 3.74% to 8.1% 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>2021</u>	<u>2020</u>
Allowance for Credit Losses:		
Balance at Beginning of the Year	\$ 69,071	\$ 69,071
Provision for Loan Losses	-	-
Loans Charged-Off	-	-
Recoveries on Sales of Loans	-	-
Balance at End of Year	<u>\$ 69,071</u>	<u>\$ 69,071</u>

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

	<u>2021</u>			
	<u>Current</u>	<u>30-89 Days Past Due</u>	<u>90 Days or More Past Due</u>	
Mortgages Receivable	\$ 48,491,342	\$ 642,990	\$ 911,659	\$ 50,045,991

	<u>2020</u>			
	<u>Current</u>	<u>30-89 Days Past Due</u>	<u>90 Days or More Past Due</u>	
Mortgages Receivable	\$ 52,564,531	\$ 874,780	\$ 1,224,123	\$ 54,663,434

**TWIN CITIES HABITAT FOR HUMANITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020**

NOTE 7 LONG-TERM NOTES PAYABLE

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

<u>Description</u>	<u>2021</u>	<u>2020</u>
<i>Interest-Bearing Notes:</i>		
Note Payable, 1%, Secured by Specifically Identified Mortgages Receivable, Due in Monthly Installments of \$1,738 through March 1, 2022 (a)	\$ 15,580	\$ 36,173
Note Payable, 2.83%, Secured by Specifically Identified Mortgages Receivable, Due in Monthly Installments of \$88,977 through September 1, 2040 (a)	11,041,818	13,300,896
Note Payable, 4.25%, Secured by Specific Mortgages Receivable, Due in Monthly Installments of \$7,683 through July 1, 2023	186,350	268,581
Note Payable, 3%, Unsecured, Due in Quarterly Interest-Only Installments of \$9,750 with Principal Balance Due in Full on October 1, 2022	-	1,300,000
Note Payable, 3.75%, Secured by specifically identified mortgages receivable, Due in monthly installments of \$7,505 through May 1, 2021	-	81,391
Note Payable, 2%, Unsecured, Due in quarterly interest-only installments of \$5,000 with principal balance due on April 4, 2021	-	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, 4%, Secured by specifically identified mortgages receivable, Due in monthly installments of installments of \$7,593 through July 1, 2022	97,484	182,759
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)	-	677,432
Note Payable, 1.5%, Unsecured, Quarterly interest-only payments of \$3,750 with principal balance due on January 31, 2028	1,000,000	1,000,000
Note Payable, 2.86%, 2.55% and 2.38% based on date of when funds were drawn, Unsecured, Annual interest-only payments of \$22,880 with principal balance due on September 30, 2025	800,000	800,000
Subtotal - Interest-Bearing Notes	14,141,232	19,647,232

**TWIN CITIES HABITAT FOR HUMANITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020**

NOTE 7 LONG-TERM NOTES PAYABLE (CONTINUED)

<u>Description</u>	<u>2021</u>	<u>2020</u>
<i><u>Interest-Bearing Notes (Continued):</u></i>		
QLICI Note Payable, 0.694151%, Secured by notes receivable of \$3,623,316, Due in semi-annual interest-only installments of \$18,410 through May 5, 2025. Due in semi-annual principal and interest installments through August 22, 2048	\$ 5,304,335	\$ 5,304,335
Subtotal - Qualified Low Income Community Investment Notes	5,304,335	5,304,335
<i><u>Noninterest Bearing Notes:</u></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)	7,634,991	8,386,902
Notes Payable, Noninterest-bearing, Unsecured, Due in Monthly Installments to Habitat for Humanity International for the SHOP program over 48 months (b)	39,924	94,953
Note Payable, Noninterest-bearing, Unsecured, Amount Due in Yearly Installments of \$6,667 through January 1, 2036	99,995	106,663
Subtotal - Noninterest Bearing Notes	7,774,910	8,588,518
<i><u>Forgivable Notes:</u></i>		
Paycheck Protection Program unsecured loan as described in Note 1.	1,712,600	1,730,100
Note Payable, Noninterest-bearing, Unsecured, No Payments Required, Forgivable on January 31, 2023 Contingent on Specific Requirements Being Met	80,000	80,000
Notes Payable, Noninterest-bearing, Unsecured, No Payments Required, Forgivable between July 1, 2032 and June 1, 2038 Contingent on Specific Requirements Being Met	523,273	523,273
Subtotal - Forgivable Notes	2,315,873	2,333,373
Total	29,536,350	35,873,458
Less: Unamortized Discount	(3,606,563)	(4,488,114)
Less: Unamortized Origination Fees	(509,333)	(613,257)
Long-Term Notes Payable, Net	<u>\$ 25,420,454</u>	<u>\$ 30,772,087</u>

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

**TWIN CITIES HABITAT FOR HUMANITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020**

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>
2022	\$ 1,621,823	\$ 1,712,600
2023	1,528,929	80,000
2024	1,462,014	-
2025	1,464,839	-
2026	3,524,227	-
Thereafter	17,618,645	523,273
Total	<u>\$ 27,220,477</u>	<u>\$ 2,315,873</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, 2021 or have obtained a waiver.

New Market Tax Credit Financing

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, consisting of one QLICI loan. In August 2025, under the terms of the put option agreement, the put option will be exercised. Exercise of the option will effectively allow the Organization to extinguish its outstanding debt owed to the Fund.

NOTE 8 LINE OF CREDIT

The Organization has two lines of credit with interest rates ranging from 1.00% to the Prime rate less 1.50%, never to drop below 3.25%. One revolving line of credit, which expires in June 2028, permits borrowings up to \$25,000,000. The agreement is unsecured. There was an outstanding balance of \$1,875,000 and \$2,250,000 as of June 30, 2021 and 2020, respectively. The Organization’s subsidiary, TCHFH Lending, Inc., has a warehouse line of credit to borrow up to \$7,000,000. The line of credit expires in April 2022. The agreement is secured by mortgage loans in transit. As of June 30, 2021 and 2020, there is an outstanding balance of \$2,180,060 and \$1,427,769, respectively.

**TWIN CITIES HABITAT FOR HUMANITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020**

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, 2021 and 2020 was \$786,981 and \$592,487, respectively.

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

<u>Year Ending June 30,</u>	<u>Amount</u>
2022	\$ 517,191
2023	341,048
2024	262,932
2025	263,766
2026	21,981
Thereafter	-
Total Minimum Lease Payments	<u><u>\$ 1,406,918</u></u>

NOTE 10 IN-KIND CONTRIBUTIONS

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

	<u>2021</u>	<u>2020</u>
Land and Building Materials	\$ 130,100	\$ 477,471
Tools and Equipment	397,359	469,300
Specialized Labor	58,031	53,377
Subtotal In-Kind Contributions	<u>585,490</u>	<u>1,000,148</u>
Special Event Donated Material	139,068	73,962
Total In-Kind Contributions	<u><u>\$ 724,558</u></u>	<u><u>\$ 1,074,110</u></u>

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

	<u>2021</u>	<u>2020</u>
Cost of Homes Sold	\$ 687,471	\$ 1,017,456
Specialized Labor and Services	58,031	53,377
Materials and Equipment	397,359	469,300
Special Event Direct Benefits	139,068	73,962
Total In-Kind Expenses	<u><u>\$ 1,281,929</u></u>	<u><u>\$ 1,614,095</u></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
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020**

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 \$190,083 and \$192,018 for the years ended June 30, 2021 and 2020, respectively.

NOTE 12 NET ASSETS WITH DONOR RESTRICTIONS

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

	2021	2020
Time Restricted Pledges	\$ 3,276,964	\$ 3,465,655
Restricted for Program Purposes	1,656,087	583,151
Unappropriated Endowment Earnings	385,932	98,132
Endowment to be Held in Perpetuity	1,197,059	1,165,363
Total	\$ 6,516,042	\$ 5,312,301

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

	2021	2020
Net Pledges Received	\$ 1,798,420	\$ 2,144,137
Program Expenditures Incurred	538,930	596,733
Total Releases from Restriction	\$ 2,337,350	\$ 2,740,870

NOTE 13 ENDOWMENT

Donor-Restricted Endowments

The composition of endowment funds by type of fund are as follows at June 30:

	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor Restricted Endowment Funds	\$ -	\$ 1,582,991	\$ 1,582,991
	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor Restricted Endowment Funds	\$ -	\$ 1,263,495	\$ 1,263,495

**TWIN CITIES HABITAT FOR HUMANITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020**

NOTE 13 ENDOWMENT (CONTINUED)

Donor-Restricted Endowments (Continued)

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

	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment Fund Balance, June 30, 2020	\$ -	\$ 1,263,495	\$ 1,263,495
Contributions	-	31,696	31,696
Investment Income	-	287,800	287,800
Appropriations	-	-	-
Endowment Fund Balance, June 30, 2021	<u>\$ -</u>	<u>\$ 1,582,991</u>	<u>\$ 1,582,991</u>
	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment Fund Balance, June 30, 2019	\$ -	\$ 792,388	\$ 792,388
Contributions	-	500,000	500,000
Investment Loss	-	(28,893)	(28,893)
Appropriations	-	-	-
Endowment Fund Balance, June 30, 2020	<u>\$ -</u>	<u>\$ 1,263,495</u>	<u>\$ 1,263,495</u>

This donor-restricted endowment fund was established for the purpose of securing the Organization's long-term financial viability. As required by U.S. GAAP, net assets of the endowment fund are classified and reported based on the existence or absence of donor-imposed restrictions. The board of directors has interpreted the state's Uniform Prudent Management of Institutional Funds Act (UPMIFA) as maintaining the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, we retain in perpetuity (a) the original value of initial and subsequent gift amounts (including promises to give net of discount and allowance for doubtful accounts including promises to give at fair value) donated to the Endowment and (b) any accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure by us in a manner consistent with the standard of prudence prescribed by UPMIFA.

Investment Objectives and Strategies

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

**TWIN CITIES HABITAT FOR HUMANITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020**

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 - 2021 total \$385,932.

NOTE 14 INVESTMENTS

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

	<u>2021</u>	<u>2020</u>
Mutual Funds	\$ 426,828	\$ 354,572
Stocks	933,248	756,110
Exchange-Traded and Closed-End Funds	<u>222,915</u>	<u>130,280</u>
Total	<u>\$ 1,582,991</u>	<u>\$ 1,240,962</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>2021</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual Funds	\$ 426,828	\$ -	\$ -	\$ 426,828
Stocks	933,248	-	-	933,248
Exchange-Traded and Closed-End Funds	<u>222,915</u>	<u>-</u>	<u>-</u>	<u>222,915</u>
Total	<u>\$ 1,582,991</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,582,991</u>

	<u>2020</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual Funds	\$ 354,572	\$ -	\$ -	\$ 354,572
Stocks	756,110	-	-	756,110
Exchange-Traded and Closed-End Funds	<u>130,280</u>	<u>-</u>	<u>-</u>	<u>130,280</u>
Total	<u>\$ 1,240,962</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,240,962</u>

**TWIN CITIES HABITAT FOR HUMANITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020**

NOTE 16 MORTGAGE SERVICING RIGHTS

The Organization's subsidiary, TCHFH Lending Inc., has mortgage servicing rights on mortgages that it originated and sold with servicing retained. The value of these rights was \$1,087,597 and \$998,052 as of June 30, 2021 and 2020, respectively. The servicing asset for June 30, 2021 was determined using a weighted-average note rate of 2.851%, discount rate of 14%, and conditional prepayment rate of 3.93%. The servicing asset for June 30, 2020 was determined using a weighted-average note rate of 2.98%, discount rate of 14.0%, and conditional prepayment rate of 4.91%.

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

	<u>2021</u>	<u>2020</u>
Servicing Fees Earned	\$ 305,167	\$ 223,711
Gain on Loan Sales	89,545	474,840

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

	<u>2021</u>	<u>2020</u>
Balance at Beginning of the Year	\$ 998,052	\$ 523,212
Additions	89,545	474,840
Balance at End of the Year	<u>\$ 1,087,597</u>	<u>\$ 998,052</u>

NOTE 17 LIQUIDITY AND AVAILABILITY

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

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

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

**TWIN CITIES HABITAT FOR HUMANITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020**

NOTE 17 LIQUIDITY AND AVAILABILITY (CONTINUED)

As of June 30, 2021 and 2020, the following financial assets could readily be made available within one year of the balance sheet date to meet general expenses:

	<u>2021</u>	<u>2020</u>
Available Assets		
Cash and Cash Equivalents	\$ 14,092,133	\$ 12,234,992
Accounts Receivable	731,047	932,437
Contributions Receivable, Due in One Year	1,897,076	2,174,390
Mortgages Held, Due in One Year	<u>3,370,000</u>	<u>3,068,000</u>
	20,090,256	18,409,819
Other Balances		
Less: Restricted Cash Accounts	(158,834)	(186,527)
Less: Restricted Receipts Not Yet Spent	<u>(1,599,491)</u>	<u>(538,930)</u>
Total Available Assets, Net	<u>\$ 18,331,931</u>	<u>\$ 17,684,362</u>
Line of Credit Balances Available for General Operations	<u>\$ 23,125,000</u>	<u>\$ 27,275,000</u>

TWIN CITIES HABITAT FOR HUMANITY, INC.
CONSOLIDATING BALANCE SHEET
JUNE 30, 2021

	Twin Cities Habitat for Humanity, Inc.	Lending, Inc.	Eliminations	Consolidated
ASSETS				
Cash and Cash Equivalents	\$ 13,006,269	\$ 1,085,864	\$ -	\$ 14,092,133
Investments	1,582,991	-	-	1,582,991
Accounts Receivable	695,497	35,550	-	731,047
Mortgage Servicing Asset, Net	-	1,087,597	-	1,087,597
Contributions Receivable, Net	3,259,428	-	-	3,259,428
Related Entity Receivable	1,675,047	-	(1,675,047)	-
Inventory	12,400,727	-	-	12,400,727
Land Held in Trust	1,132,782	-	-	1,132,782
Prepaid and Other Assets	976,987	13,641	-	990,628
Leveraged Loans Receivable	3,586,500	-	-	3,586,500
Property and Equipment, Net	8,427,662	-	-	8,427,662
Mortgages Receivable:				
Mortgages Receivable Held, at Face Value	50,045,991	-	-	50,045,991
Mortgages Receivable Held for Sale, at Face Value	-	3,107,322	-	3,107,322
Less: Unamortized Discount and Allowance	(16,434,258)	-	-	(16,434,258)
Mortgages Receivable, Net	<u>33,611,733</u>	<u>3,107,322</u>	<u>-</u>	<u>36,719,055</u>
 Total Assets	 <u>\$ 80,355,623</u>	 <u>\$ 5,329,974</u>	 <u>\$ (1,675,047)</u>	 <u>\$ 84,010,550</u>
LIABILITIES AND NET ASSETS				
LIABILITIES				
Accounts Payable	\$ 330,163	\$ 27,719	\$ -	\$ 357,882
Accrued Expenses	1,239,622	851	-	1,240,473
Related Entity Payable	-	1,675,047	(1,675,047)	-
Line of Credit	1,875,000	2,180,060	-	4,055,060
Unearned Grant Revenue	1,712,422	379,447	-	2,091,869
Long-Term Notes Payable:				
Long-Term Notes Payable at Face Value	29,536,350	-	-	29,536,350
Less: Unamortized Discount and Origination Fees	(4,115,896)	-	-	(4,115,896)
Long-Term Notes Payable, Net	<u>25,420,454</u>	<u>-</u>	<u>-</u>	<u>25,420,454</u>
 Total Liabilities	 30,577,661	 4,263,124	 (1,675,047)	 33,165,738
NET ASSETS				
Without Donor Restrictions	43,261,920	1,066,850	-	44,328,770
With Donor Restrictions	<u>6,516,042</u>	<u>-</u>	<u>-</u>	<u>6,516,042</u>
Total Net Assets	<u>49,777,962</u>	<u>1,066,850</u>	<u>-</u>	<u>50,844,812</u>
 Total Liabilities and Net Assets	 <u>\$ 80,355,623</u>	 <u>\$ 5,329,974</u>	 <u>\$ (1,675,047)</u>	 <u>\$ 84,010,550</u>

**TWIN CITIES HABITAT FOR HUMANITY, INC.
CONSOLIDATING STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2021**

	Twin Cities Habitat for Humanity, Inc.		Lending, Inc.	Eliminations	Consolidated	
	Without Donor Restrictions	With Donor Restrictions	Without Donor Restrictions		Without Donor Restrictions	With Donor Restrictions
OPERATING REVENUE AND SUPPORT						
Operating Revenue:						
Home Sales (Mortgages Received)	\$ 9,535,092	\$ -	\$ -	\$ -	\$ 9,535,092	\$ -
Investment Income (Loss)	13,846	287,800	38,415	-	52,261	287,800
ReStore Sales (Net of Direct Expense of \$2,057,062)	421,053	-	-	-	421,053	-
PPP Loan Forgiveness	1,730,100	-	-	-	1,730,100	-
Other	254,939	-	665,214	(390,378)	529,775	-
Total Operating Revenue	11,955,030	287,800	703,629	(390,378)	12,268,281	287,800
Support:						
Contributions	8,848,830	3,253,291	528,000	(528,000)	8,848,830	3,253,291
Public Sector Funds	3,801,988	-	203,995	-	4,005,983	-
In-Kind	585,490	-	-	-	585,490	-
Special Events (Net of Direct Expense of \$138,258)	810,370	-	-	-	810,370	-
Total Support	14,046,678	3,253,291	731,995	(528,000)	14,250,673	3,253,291
Net Assets Released from Restrictions	2,337,350	(2,337,350)	-	-	2,337,350	(2,337,350)
Total Operating Revenue and Support	28,339,058	1,203,741	1,435,624	(918,378)	28,856,304	1,203,741
OPERATING EXPENSES						
Program Services	20,247,569	-	1,022,622	(1,269,800)	20,000,391	-
Management and General	2,528,590	-	17,835	-	2,546,425	-
Fundraising	2,755,834	-	-	-	2,755,834	-
Total Operating Expenses	25,531,993	-	1,040,457	(1,269,800)	25,302,650	-
OPERATING INCREASE (DECREASE) IN NET ASSETS	2,807,065	1,203,741	395,167	351,422	3,553,654	1,203,741
NONOPERATING ACTIVITIES						
Amortization of Discount on Mortgages	2,203,110	-	-	-	2,203,110	-
Amortization of Discount on Long-Term Notes Payable	(965,259)	-	-	-	(965,259)	-
NONOPERATING INCREASE IN NET ASSETS	1,237,851	-	-	-	1,237,851	-
TOTAL INCREASE (DECREASE) IN NET ASSETS	4,044,916	1,203,741	395,167	351,422	4,791,505	1,203,741
Net Assets - Beginning of Year	39,217,004	5,312,301	671,683	(351,422)	39,537,265	5,312,301
NET ASSETS - END OF YEAR	<u>\$ 43,261,920</u>	<u>\$ 6,516,042</u>	<u>\$ 1,066,850</u>	<u>\$ -</u>	<u>\$ 44,328,770</u>	<u>\$ 6,516,042</u>



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