

**HABITAT FOR HUMANITY OF MINNESOTA, INC.**  
Minneapolis, Minnesota

**FINANCIAL STATEMENTS**  
Including Independent Auditors' Report

As of and for the Years Ended June 30, 2013 and 2012

HABITAT FOR HUMANITY OF MINNESOTA, INC.

TABLE OF CONTENTS

---

<b>Independent Auditors' Report</b>	1
<b>Financial Statements</b>	
Statements of Financial Position	2
Statements of Activities	3
Statements of Functional Expenses	4
Statements of Cash Flows	5
Notes to Financial Statements	6 - 14

INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Habitat for Humanity of Minnesota, Inc.  
Minneapolis, Minnesota

We have audited the accompanying financial statements of Habitat for Humanity of Minnesota, Inc. (the "Organization"), which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these 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 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 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Habitat for Humanity of Minnesota, Inc. as of June 30, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Baker Tilly Virchow Krause, LLP*

Minneapolis, Minnesota  
October 17, 2013

HABITAT FOR HUMANITY OF MINNESOTA, INC.

STATEMENTS OF FINANCIAL POSITION  
As of June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 467,306	\$ 314,212
Cash and cash equivalents - restricted	1,320,084	1,762,113
Short-term investments	496,193	536,710
Accounts and interest receivable	94,837	90,751
Prepaid expenses and other assets	14,041	7,946
Property and equipment, net	14,358	8,700
Loans receivable	36,934,740	35,094,862
Allowance for loan losses	(55,402)	(52,642)
Unamortized discount on loans receivable	<u>(9,898,939)</u>	<u>(10,229,104)</u>
Net loans receivable	<u>26,980,399</u>	<u>24,813,116</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 29,387,218</u></b>	<b><u>\$ 27,533,548</u></b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable	\$ 47,999	\$ 35,055
Assistance to affiliates payable	122,932	139,093
Accrued payroll expenses	17,207	19,426
Accrued vacation	7,146	4,952
Deferred fee income	407,145	387,635
Other accrued expenses	115,358	89,248
CRV recoverable grants	84,000	76,068
Revolving loans payable	21,157,927	21,157,927
Notes payable	15,644,243	14,318,271
Unamortized discount on revolving loan and notes payable	<u>(10,359,401)</u>	<u>(10,719,345)</u>
Net loans and notes payable	26,442,769	24,756,853
Deposits on loans receivable from affiliates	<u>59,336</u>	<u>59,336</u>
Total Liabilities	27,303,892	25,567,666
<b>NET ASSETS</b>		
Unrestricted	1,796,270	1,429,108
Temporarily Restricted	<u>287,056</u>	<u>536,774</u>
Total Net Assets	<u>2,083,326</u>	<u>1,965,882</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 29,387,218</u></b>	<b><u>\$ 27,533,548</u></b>

See accompanying notes to financial statements.

**HABITAT FOR HUMANITY OF MINNESOTA, INC.**

**STATEMENTS OF ACTIVITIES**

For the Years Ended June 30, 2013 and 2012

	2013		2012	
	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted
<b>OPERATING SUPPORT AND REVENUE</b>				
Contributions	\$ 400,991	\$ 22,956	\$ 423,947	
CRV grant revenue	397,068	-	397,068	8,250
Program fees	531,366	-	531,366	-
Interest income	416,805	-	416,805	-
Habitat 500 revenue	61,279	-	61,279	-
Net assets released from restrictions	272,674	(272,674)	-	(266,065)
	<u>2,080,183</u>	<u>(249,718)</u>	<u>1,830,465</u>	<u>(257,815)</u>
Total Operating Support and Revenue			1,713,166	1,455,351
<b>OPERATING EXPENSES</b>				
Program expenses	1,434,119	-	1,434,119	-
Support services	149,538	-	149,538	-
Management and general	99,584	-	99,584	-
Fundraising	249,122	-	249,122	-
Total Support services	<u>1,683,241</u>	<u>-</u>	<u>1,683,241</u>	<u>-</u>
Total Operating Expenses			1,450,403	1,450,403
<b>CHANGE IN NET ASSETS - OPERATING</b>	396,942	(249,718)	262,763	(257,815)
<b>NONOPERATING ACTIVITIES</b>				
Contribution of below market interest rate debt	456,444	-	456,444	-
Amortization of discounts on loans receivable	755,243	-	755,243	-
Discounts on loans receivable originated	(425,079)	-	(425,079)	-
Amortization of discounts on revolving loan and notes payable	(816,388)	-	(816,388)	-
<b>CHANGE IN NET ASSETS - NONOPERATING</b>	<u>(29,780)</u>	<u>-</u>	<u>(17,882)</u>	<u>(17,882)</u>
<b>TOTAL CHANGE IN NET ASSETS</b>	367,162	(249,718)	244,881	(257,815)
NET ASSETS - Beginning of Year	1,429,108	536,774	1,184,227	794,589
<b>NET ASSETS - End of Year</b>	<u>\$ 1,796,270</u>	<u>\$ 287,056</u>	<u>\$ 1,429,108</u>	<u>\$ 536,774</u>
			<u>\$ 2,083,326</u>	<u>\$ 1,965,882</u>

See accompanying notes to financial statements.

**HABITAT FOR HUMANITY OF MINNESOTA, INC.**

**STATEMENTS OF FUNCTIONAL EXPENSES**  
Years Ended June 30, 2013 and 2012

	2013			2012				
	Program	Management and General	Fundraising	Total	Program	Management and General	Fundraising	Total
<b>OPERATING EXPENSES</b>								
Payroll expenses	\$ 348,846	\$ 45,315	\$ 71,812	\$ 465,973	\$ 314,623	\$ 20,274	\$ 93,769	\$ 428,666
Office expenses	31,116	7,652	12,907	51,675	23,582	8,691	12,221	44,494
Professional services	-	39,581	-	39,581	-	28,692	-	28,692
Meetings and training	37,305	9,744	8,222	55,271	54,875	11,464	7,018	73,357
Interest expense	335,111	-	-	335,111	297,399	-	-	297,399
Travel	7,483	5,571	4,214	17,268	12,115	556	7,086	19,757
Insurance	-	7,803	555	8,358	-	2,976	1,422	4,398
Equipment expense	-	6,164	-	6,164	-	8,230	-	8,230
Loan trustee fees	16,100	-	-	16,100	16,100	-	-	16,100
Advertising	-	2,500	874	3,374	-	2,500	-	2,500
Administrative	10,276	17,600	1,000	28,876	11,840	3,197	-	15,037
Other	7,783	1,091	-	8,874	3,419	5,825	658	9,902
Tithe	27,338	-	-	27,338	11,640	-	-	11,640
VISTA stipends	212,933	-	-	212,933	202,194	-	-	202,194
CRV grant expense	397,068	-	-	397,068	282,932	-	-	282,932
Provision for loan losses	2,760	-	-	2,760	2,067	-	-	2,067
Depreciation	-	6,517	-	6,517	-	3,038	-	3,038
Total Operating	1,434,119	149,538	99,584	1,683,241	1,232,786	95,443	122,174	1,450,403
<b>NONOPERATING EXPENSES</b>								
Discounts on loans receivable originated	425,079	-	-	425,079	867,519	-	-	867,519
Amortization of discounts on revolving loan and notes payable	816,388	-	-	816,388	985,266	-	-	985,266
Total Nonoperating	1,241,467	-	-	1,241,467	1,852,785	-	-	1,852,785
<b>TOTAL EXPENSES</b>	<b>\$ 2,675,586</b>	<b>\$ 149,538</b>	<b>\$ 99,584</b>	<b>\$ 2,924,708</b>	<b>\$ 3,085,571</b>	<b>\$ 95,443</b>	<b>\$ 122,174</b>	<b>\$ 3,303,188</b>
Percentage based on operating expenses	85.2%	8.9%	5.9%	100.0%	85.0%	6.6%	8.4%	100.0%
Percentage based on total expenses	91.5%	5.1%	3.4%	100.0%	93.4%	2.9%	3.7%	100.0%

See accompanying notes to financial statements.

**HABITAT FOR HUMANITY OF MINNESOTA, INC.**

STATEMENTS OF CASH FLOWS  
For the Years Ended June 30, 2013 and 2012

	2013	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 117,444	\$ (12,934)
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	6,517	3,038
Contribution of equipment	(12,175)	-
Contribution of below market interest rate debt	(456,444)	(893,492)
Discounts on loans receivable originated	425,079	867,519
Amortization of discounts on loans receivable	(755,243)	(941,411)
Amortization of discounts on revolving loan and notes payable	816,388	985,266
Provision for loan losses	2,760	2,067
Changes in operating assets and liabilities		
Accounts and interest receivable	(4,086)	(11,461)
Prepaid expenses and other assets	(6,095)	(4,342)
Accounts payable	12,944	798
Assistance to affiliates payable	(16,161)	42,132
Accrued payroll expenses	(2,219)	6,400
Accrued vacation	2,194	(1,186)
Deferred fee income	19,510	18,892
CRV recoverable grants	7,932	(118,457)
Other accrued expenses	26,110	14,264
Net Cash Flows From Operating Activities	184,455	(42,907)
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Changes in restricted cash and cash equivalents	442,029	29,702
Collections on loans receivable	1,977,254	1,886,526
Purchase of short-term investments	(496,193)	(235,831)
Proceeds on maturity of short-term investments	536,710	234,247
Purchase of equipment	-	(11,159)
Loans receivable issued	(3,817,134)	(3,264,580)
Net Cash Flows From Investing Activities	(1,357,334)	(1,361,095)
 <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments on notes payable	(674,027)	(601,278)
Proceeds from issuance of notes payable	2,000,000	2,000,000
Net Cash Flows From Financing Activities	1,325,973	1,398,722
 <b>Change in Cash and Cash Equivalents</b>	153,094	(5,280)
 CASH AND CASH EQUIVALENTS - Beginning of Year	314,212	319,492
 <b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 467,306	\$ 314,212
 Supplemental cash flow disclosures		
Cash paid for interest	\$ 325,710	\$ 288,704
Non-cash investing and financing activities		
Contribution of equipment	\$ 12,175	\$ -

See accompanying notes to financial statements.

## HABITAT FOR HUMANITY OF MINNESOTA, INC.

### NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2013 and 2012

---

#### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

---

##### *Nature of Activities*

Habitat for Humanity of Minnesota, Inc. (the Organization) is a Minnesota not-for-profit organization that was incorporated in 1997. The Organization was created by the Habitat for Humanity affiliates in the State of Minnesota to help them be successful in achieving their goal of eliminating poverty housing from their service areas. At June 30, 2013, there were 32 affiliates providing housing solutions for approximately 300 families per year. The Organization manages programs which provide a broad range of support to the affiliates, primarily in the areas of resource development, training, and building awareness. The main program provided by the Organization is a lending program designed to provide Habitat affiliates with a form of secondary market for their 0% interest long-term mortgage loans made to Habitat homeowners. Through the Organization's lending program, Habitat affiliates can generate more resources to build homes by converting their mortgages into cash, which provides them the opportunity to build more homes. Through the Organization's programs, Minnesota Habitat affiliates have quadrupled the number of families served annually since 1997. The Organization was certified by the U.S. Department of Treasury on December 7, 2000 as a Community Development Financial Institution (CDFI).

During the year ended June 30, 2011, the Organization received a \$750,000 grant from the CDFI Fund. These funds are to be utilized to supplement the resources deployed for the Organization's lending program. All resources must be deployed by June 30, 2014. At June 30, 2013, \$264,100 remained to be deployed.

During the years ended June 30, 2013 and 2012, the Organization received a grant from the Corporation for National and Community Service to operate an AmeriCorps VISTA (Volunteers in Service to America) program. This grant provided funding for the Organization to place a total of 26 full-year and 34 summer VISTA volunteers with affiliates around the state. These VISTA volunteers carry out capacity building programs to help Habitat affiliates reduce poverty in their communities.

##### *Net Assets*

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

**Unrestricted Net Assets** - Resources over which the board of directors (the Board) has discretionary control.

**Temporarily Restricted Net Assets** - Net assets subject to donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Organization pursuant to those stipulations. Restricted contributions received in the same year in which the restrictions are met are recorded as an increase in unrestricted support at the time of receipt. The Organization had \$22,956 and \$8,250 in temporarily restricted net assets for the sustainable building program at June 30, 2013 and 2012, respectively. The Organization also had \$264,100 and \$528,524 in temporarily restricted net assets for the CDFI program at June 30, 2013 and 2012, respectively.

**Permanently Restricted Net Assets** - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, the donors of such assets permit the Organization to use all or part of the income earned on the assets. The Organization currently has no permanently restricted net assets.

## HABITAT FOR HUMANITY OF MINNESOTA, INC.

### NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2013 and 2012

---

#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

---

##### *Non-operating Activities*

Non-operating activities include all non-cash activities relating to the discounting of loans payable and receivable.

##### *Cash and Cash Equivalents*

The Organization defines cash equivalents as highly liquid, short-term investments with a maturity at the date of acquisition of three months or less. The Organization maintains its cash and cash equivalents in money market mutual funds and bank deposit accounts at high credit quality financial institutions. The bank balances, at times, may exceed federally insured limits. Restricted cash is primarily related to loan proceeds, repayment and reserve accounts and amounts collected from the Habitat 500 bike ride to be distributed to affiliates.

##### *Short-Term Investments*

Short-term investments are recorded at cost and consist of certificates of deposit with initial maturities of greater than three months. Due to their short term nature, cost approximates fair value.

##### *Loans Receivable*

The Organization accounts for uncollectible receivables by the reserve method based on management's best estimate and past history of collections. Receivables are assessed individually for collectability based on the surrounding facts and circumstances and management's past history of collections. Additional interest is not accrued on past due accounts. When all collection efforts have been exhausted, the accounts are written off.

##### *Assistance to Affiliate Payable*

The Organization operates an annual bike ride primarily for the benefit of its affiliates and other Habitat organizations. Participants directly identify the recipient of their contributions and all amounts collected for others are recorded as assistance to affiliates payable and are disbursed regularly.

##### *Deferred Fee Income*

The Organization charges an origination fee on new loans receivable. The fee income is amortized over the term of the related loan in a method consistent with the amortization of the discount on the loans.

##### *Property and Equipment*

Property and equipment are stated at cost, if purchased, or fair market value at the date of the gift, if donated. All acquisitions of property and equipment in excess of \$1,500 and all expenditures for improvements and betterments that materially prolong the useful lives of assets are capitalized and depreciated on a straight line basis over a range of 3-5 years. Maintenance, repairs, and minor improvements are expensed as incurred. When assets are retired or otherwise disposed of, their costs and related accumulated depreciation are removed from the accounts and resulting gains or losses are included in income.

##### *Contributions*

Contributions are recognized when received in the form of a pledge or cash. Promises to give are recorded at net realizable value. Conditional promises to give are not included as support until such time as the conditions are substantially met.

## HABITAT FOR HUMANITY OF MINNESOTA, INC.

### NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2013 and 2012

---

#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

---

##### *Contributed Services*

Contributions of services are recognized if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Contributed services that do not meet these criteria are not recognized. The Organization receives services donated by volunteers, which do not meet the above criteria for recognition in the financial statements.

##### *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 management's consideration of actual expenses charged to each category, as well as by estimates developed by personnel regarding time spent in each category.

##### *Tax-Exempt Status*

The Organization has received notification that it qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and corresponding provisions of State law and, accordingly, is not subject to federal or state income taxes. However, any unrelated business income may be subject to taxation. The Organization has been classified as a publicly supported charitable organization under Section 509(A)(1) of the Code and charitable contributions are deductible by donors.

In accordance with the accounting standard on Accounting for Uncertainty in Income Taxes, the Organization addressed the determination of whether tax benefits claimed on a tax return should be recorded in the financial statements. Under this guidance, the Organization may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merit of the position. Examples of tax positions include the tax-exempt status of the Organization and various positions related to the potential sources of unrelated business taxable income. There were no significant unrecognized tax benefits or recorded liabilities during fiscal years 2013 or 2012. Open tax years subject to examination by U.S. and state taxing authorities are for the years 2010 to 2012, which statutes expire in 2013 to 2015, respectively.

##### *Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

##### *Subsequent Events*

The Organization has evaluated subsequent events through October 17 2013, which is the date that the financial statements were approved and available to be issued.

##### *Reclassification*

Certain amounts in the 2012 statement of functional expenses have been reclassified to conform to the 2013 presentation. The reclassification has no effect on the reported amounts of net assets or change in net assets.

**HABITAT FOR HUMANITY OF MINNESOTA, INC.**

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended June 30, 2013 and 2012

**NOTE 2 - LOANS RECEIVABLE**

The Organization's primary activity is to make loans to affiliates building homes in the State of Minnesota. These affiliates are also tax exempt organizations described in Section 501(c)(3) of the Internal Revenue Code. Affiliates' borrowings are collateralized by mortgage notes that affiliates issued to homeowners.

	2013	2012
Various affiliates, non-interest bearing, lump sum payments due in 2018 through 2023	\$ 213,364	\$ 213,364
Various affiliates, 3% interest, monthly payments through November 1, 2021	1,117,105	1,293,623
Various affiliates, 1% interest, monthly payments through June 1, 2023	221,190	244,906
Various affiliates through the revolving loan fund, non-interest bearing, monthly payments through April 1, 2042	20,784,171	20,674,757
Various affiliates, 2.25%, 2.5%, 2.6% and 3.0% interest, monthly payments through June 1, 2038	14,598,910	12,668,212
Total loans receivable	36,934,740	35,094,862
Less: Unamortized discount	(9,898,939)	(10,229,104)
Less: Allowance for loan losses	(55,402)	(52,642)
Net Loans Receivable	\$ 26,980,399	\$ 24,813,116

All loans receivable are discounted based on the fair market interest rate at the time the funds are advanced. The fair market rate for 2013 and 2012 was based on a 60 basis point spread over 30-year Treasury bills. The discount rates used for the loans advanced in the years ended June 30, 2013 and 2012 were 3.29% and 5.00%, respectively.

Maturities of loans receivable based on the face amount of the loans are as follows at June 30, 2013:

Amounts due in fiscal year:	
2014	\$ 2,070,254
2015	2,090,363
2016	2,109,490
2017	2,126,884
2018	2,132,114
Thereafter	26,405,635
Total	\$ 36,934,740

## HABITAT FOR HUMANITY OF MINNESOTA, INC.

### NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2013 and 2012

---

#### NOTE 2 - LOANS RECEIVABLE (continued)

---

The Organization conducts a quarterly evaluation of each affiliate borrower utilizing financial statements and mortgage portfolio quality reports. Ratios and percentages are calculated on a five point scale in seven categories as established in the Organization's Board-established Loan Policy. The resulting Credit Risk Rating (CRR) is utilized to establish the appropriate level of provision for loan losses at fiscal year end. A pool reserve of 15 basis points has been established for all borrowers with a CRR of 4 or better. The provision for loan loss at a CRR of 5 is based on the projected impairment amount. As of June 30, 2013 and 2012, the provision for loan loss was set at the pool reserve and there were no projected impairment amounts.

A loan is considered delinquent when the affiliate borrower fails to make a contractually due payment within five days of the due date. Collection processes are established in the Organization's Loan Policy. As of June 30, 2013 and 2012, 100% of the Organization's loans were current.

At such time as the occurrence of a failure to collect payments from the affiliate borrower is combined with a shortfall in proceeds from collection, foreclosure or liquidation of the underlying pledged mortgage, the Organization will write-off the loan. For each of the years ended June 30, 2013 and 2012, no amounts were written-off.

The following table presents a summary of the activity for the provision for loan losses for the years ended June 30:

	<u>2013</u>	<u>2012</u>
Beginning balance	\$ 52,642	\$ 50,575
Provision for loan losses	<u>2,760</u>	<u>2,067</u>
Ending balance	<u>\$ 55,402</u>	<u>\$ 52,642</u>

---

#### NOTE 3 - PROPERTY AND EQUIPMENT

---

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

	<u>2013</u>	<u>2012</u>
Furniture and equipment	\$ 17,379	\$ 17,379
Vehicle	12,175	-
Less: Accumulated depreciation	<u>(15,196)</u>	<u>(8,679)</u>
Property and equipment, net	<u>\$ 14,358</u>	<u>\$ 8,700</u>

## HABITAT FOR HUMANITY OF MINNESOTA, INC.

### NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2013 and 2012

---

#### **NOTE 4 - CRV RECOVERABLE GRANTS**

---

The Organization has received five CRV recoverable grant awards since the year ended June 30, 2009. These recoverable grants were provided by the Minnesota Housing Finance Agency (MHFA) under their Community Revitalization Fund Program. Funds are to be utilized in accordance with a "Fund Availability, Disbursement, and Loan / Grant Agreement" that specifies the terms under which grant funds are recoverable. Grant funds that have not yet been disbursed for their intended purpose constitute the primary liability to the Organization. Grant funds are to be disbursed to "Owner-Occupants" to acquire "Qualified Dwelling Units". Each disbursement is evidenced by a Second Note secured by a Second Mortgage on the Qualified Dwelling Unit. The Organization is to receive repayment of funds from Owner-Occupants if they no longer occupy the Qualified Dwelling Unit at any time during a thirty-year period. After the thirty-year period, repayment by the Owner-Occupant is not required. Should the Organization ever receive such a repayment, it would then need to repay MHFA unless the Organization, within 6 months, re-disburses that amount to another Owner-Occupant to acquire another Qualified Dwelling Unit.

These recoverable grant awards total \$1,555,000, of which \$350,000 is for CRV #1, \$250,000 is for CRV #2, \$304,000 is for CRV #3, \$306,000 is for CRV #4, and \$345,000 is for CRV #5. During the years ended June 30, 2013 and 2012, the Organization disbursed \$397,068 and \$282,932, respectively, to Owner-Occupants of Qualified Dwelling Units. The undistributed portion of \$84,000 and \$76,068 as of June 30, 2013 and 2012, respectively, is shown as both a liability and restricted cash and cash equivalents in the accompanying statements of financial position. As disbursements are made to Owner-Occupants, grant revenue and program expense is reflected in the statement of activities as the Organization believes it has fulfilled the grant purpose. Neither a receivable nor a payable for the distributed portion of the grant is reflected in the statement of financial position as collection of the recoverable grants and ultimate repayment to MHFA is considered remote.

---

#### **NOTE 5 - REVOLVING LOAN PAYABLE**

---

The Organization entered into a revolving loan agreement with the MHFA on December 22, 2000. The agreement was amended on September 9, 2004. The agreement stipulates \$21,157,927 will be loaned to the Organization for the purpose of providing interest free mortgage financing to its network of affiliates. The loan is 0% interest and not payable as long as certain conditions are met. The conditions stipulate that the funds must be used to finance mortgages to low and moderate income families. Management believes the Organization is in compliance with these conditions. The loan payable is secured by the related loans receivable, the underlying homeowner notes and mortgages and funds held in the related proceeds and repayment accounts. The revolving loan balance at June 30, 2013 and 2012 was \$21,157,927 at both dates. The revolving loan is discounted based on the same discount used when the funds are loaned to affiliates. The unamortized discount at June 30, 2013 and 2012 was \$7,217,664 and \$7,412,025, respectively. The discounted rate on all loans ranges from 3.29% to 6.98%.

**HABITAT FOR HUMANITY OF MINNESOTA, INC.**

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended June 30, 2013 and 2012

**NOTE 6 - NOTES PAYABLE**

Notes payable consisted of the following at June 30:

	2013	2012
Note payable to MHFA, 3%, due in quarterly installments of \$10,834 through July 1, 2018	\$ 209,783	\$ 246,143
Note payable to MHFA, 3%, due in quarterly installments of \$10,834 through February 1, 2019	228,099	263,919
Note payable to MHFA, 3%, due in quarterly installments of \$10,834 through January 1, 2020	263,919	298,684
Note payable to Wells Fargo Housing Foundation, 1%, due in quarterly installments of \$4,833 through July 1, 2018	98,745	116,973
Note payable to Wells Fargo Housing Foundation, 1%, due in quarterly installments of \$4,833 through February 1, 2019	107,883	126,020
Note payable to Wells Fargo Housing Foundation, 1%, due in quarterly installments of \$4,833 through January 1, 2020	126,020	143,977
Note payable to Wells Fargo Housing Foundation, 1%, due in quarterly installments of \$4,833 through October 1, 2020	139,505	157,328
Note payable to Wells Fargo Housing Foundation, 1%, due in quarterly installments of \$4,833 through February 1, 2022	161,756	179,359
Notes payable to GMHF, non-interest bearing, unsecured, balance due in equal payments on December 31, 2017, March 31, 2019 and March 31, 2020	252,000	252,000
Note Payable to MHFA, 5%, unsecured, due in quarterly installments of \$17,574 through January 1, 2038	2,920,892	1,968,912
Note Payable to MHFA, 0%, unsecured, due in quarterly installments of \$20,000 through January 1, 2038	2,850,000	1,940,000
Note payable to MHFA, 2%, unsecured, due in quarterly installments of \$127,319 through January 1, 2035	8,285,641	8,624,956
Total notes payable	15,644,243	14,318,271
Less: Unamortized discount	(3,141,737)	(3,307,320)
Net Notes Payable	\$ 12,502,506	\$ 11,010,951

## HABITAT FOR HUMANITY OF MINNESOTA, INC.

### NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2013 and 2012

---

#### NOTE 6 - NOTES PAYABLE (continued)

---

Except as noted above, all notes payable are secured by the related loans receivable, the underlying homeowner notes and mortgages and funds held in the related proceeds, repayment and reserve accounts. Maturities of notes payable are as follows at June 30, 2013:

Year Ending June 30:	
2014	\$ 733,063
2015	747,657
2016	762,674
2017	778,128
2018	794,036
Thereafter	<u>11,828,685</u>
Total	<u>\$ 15,644,243</u>

The Organization is required to maintain two segregated, interest bearing cash accounts for loan repayments under security agreements. Under this arrangement, the borrower is required to deposit all funds into the repayment account and this must be equal to or greater than the quarterly payment that is next due. Surplus, if any, after allowable expenses may be transferred to a proceeds account for loans to affiliates.

All notes payable are discounted based on the fair market interest rate at the time the loans are received. The fair market rates used for the years ended June 30, 2013 and 2012 were based on a 60 basis point spread over 30 year treasury bills, which was 3.29% and 5.00%, respectively.

---

#### NOTE 7 - CONCENTRATIONS

---

During the years ended June 30, 2013 and 2012, the Organization received 98% and 97%, respectively, of its financing through one institution, Minnesota Housing Finance Agency. The Organization is current on all notes payable.

As of June 30, 2013 and 2012, approximately 65% of the loans made by the Organization were to the Twin Cities Habitat for Humanity affiliate.

---

#### NOTE 8 - COMMITMENTS

---

The Organization has entered into lease agreements for equipment and office space. The agreements call for monthly payments through May 2014. Total lease expense was \$30,430 and \$20,605 for the years ended June 30, 2013 and 2012, respectively. Future lease commitments for fiscal year 2014 are \$27,894.

**HABITAT FOR HUMANITY OF MINNESOTA, INC.**

**NOTES TO FINANCIAL STATEMENTS**  
As of and for the Years Ended June 30, 2013 and 2012

---

**NOTE 9 - RELATED PARTIES**

---

Twin Cities Habitat for Humanity (TC-HFH) administers the Organization's payroll and employee benefit plans. At June 30, 2013 and 2012, the Organization owed TC-HFH \$42,349 and \$34,728, respectively for payroll paid for the Organization's employees. The administrative services are provided at no cost and the value of these services is not material to the financial statements.

Several of the Habitat for Humanity affiliates that receive loans and other services from the Organization have employees and volunteers that serve on the Habitat for Humanity of Minnesota, Inc. Board of Directors. The Organization follows a conflict of interest policy.

---

**NOTE 10 - 401(k) DEFINED CONTRIBUTION PLAN**

---

The Organization's employees participate in a 401(k) defined contribution plan through Twin Cities Habitat for Humanity. Eligible employees may elect to defer up to 20% of their compensation. The Organization contributed an amount on behalf of each eligible participant equal to 100% of their contributions up to 3%. Contributions to the plan by the Organization were \$8,440 and \$9,123 for the years ended June 30, 2013 and 2012, respectively.