

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

**FINANCIAL STATEMENTS**  
Including Independent Auditors' Report

As of and for the Years Ended June 30, 2014 and 2013

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

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## 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, 2014 and 2013, 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, 2014 and 2013, 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.



Minneapolis, Minnesota  
October 16, 2014

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

**STATEMENTS OF FINANCIAL POSITION**

As of June 30, 2014 and 2013

	2014	2013
<b>ASSETS</b>		
Cash and cash equivalents	\$ 415,904	\$ 467,306
Cash and cash equivalents - restricted	1,097,131	1,320,084
Short-term investments	497,425	496,193
Accounts and interest receivable	89,597	94,837
Prepaid expenses and other assets	5,292	14,041
Property and equipment, net	10,941	14,358
Loans receivable	38,416,084	36,934,740
Allowance for loan losses	(57,624)	(55,402)
Unamortized discount on loans receivable	(9,681,438)	(9,898,939)
Net loans receivable	28,677,022	26,980,399
<b>TOTAL ASSETS</b>	<b>\$ 30,793,312</b>	<b>\$ 29,387,218</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable	\$ 36,418	\$ 47,999
Assistance to affiliates payable	104,465	122,932
Accrued payroll expenses	20,844	17,207
Accrued vacation	7,888	7,146
Deferred fee income	408,871	407,145
Other accrued expenses	108,562	115,358
CRV recoverable grants	22,000	84,000
Revolving loans payable	21,157,927	21,157,927
Notes payable	16,896,106	15,644,243
Unamortized discount on revolving loan and notes payable	(10,127,537)	(10,359,401)
Net loans and notes payable	27,926,496	26,442,769
Deposits on loans receivable from affiliates	59,336	59,336
<b>Total Liabilities</b>	28,694,880	27,303,892
<b>NET ASSETS</b>		
Unrestricted	2,063,432	1,796,270
Temporarily Restricted	35,000	287,056
<b>Total Net Assets</b>	<b>2,098,432</b>	<b>2,083,326</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 30,793,312</b>	<b>\$ 29,387,218</b>

See accompanying notes to financial statements.

HABITAT FOR HUMANITY OF MINNESOTA, INC.

STATEMENTS OF ACTIVITIES  
For the Years Ended June 30, 2014 and 2013

	2014			2013		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<b>OPERATING SUPPORT AND REVENUE</b>						
Contributions	\$ 241,227	\$ 35,000	\$ 276,227	\$ 400,991	\$ 22,956	\$ 423,947
CRV grant revenue	294,000	-	294,000	397,068	-	397,068
Program fees	548,808	-	548,808	531,366	-	531,366
Interest income	454,139	-	454,139	416,805	-	416,805
Habitat 500 revenue	62,510	-	62,510	61,279	-	61,279
Net Assets Released from Restrictions	287,056	(287,056)	-	272,674	(272,674)	-
Total Support and Other Revenue	1,887,740	(252,056)	1,635,684	2,080,183	(249,718)	1,830,465
<b>OPERATING EXPENSES</b>						
Program expenses	1,387,147	-	1,387,147	1,434,119	-	1,434,119
Support services						
Management and general	134,279	-	134,279	149,538	-	149,538
Fundraising	84,789	-	84,789	99,584	-	99,584
Total Support Services	219,068	-	219,068	249,122	-	249,122
Total Expense	1,606,215	-	1,606,215	1,683,241	-	1,683,241
<b>CHANGE IN NET ASSETS - OPERATING</b>	281,525	(252,056)	29,469	396,942	(249,718)	147,224
<b>NONOPERATING</b>						
Contribution of below market interest rate debt	542,757	-	542,757	456,444	-	456,444
Amortization of discounts on loans receivable	735,955	-	735,955	755,243	-	755,243
Discounts on loans receivable originated	(518,454)	-	(518,454)	(425,079)	-	(425,079)
Amortization of discounts on revolving loan and notes payable	(774,621)	-	(774,621)	(816,388)	-	(816,388)
<b>CHANGE IN NET ASSETS - NONOPERATING</b>	(14,363)	-	(14,363)	(29,780)	-	(29,780)
<b>TOTAL CHANGE IN NET ASSETS</b>	267,162	(252,056)	15,106	367,162	(249,718)	117,444
NET ASSETS - Beginning of Year	1,796,270	287,056	2,083,326	1,429,108	536,774	1,965,882
<b>NET ASSETS - End of Year</b>	\$ 2,063,432	\$ 35,000	\$ 2,098,432	\$ 1,796,270	\$ 287,056	\$ 2,083,326

See accompanying notes to financial statements.

HABITAT FOR HUMANITY OF MINNESOTA, INC.

STATEMENTS OF FUNCTIONAL EXPENSES  
Years Ended June 30, 2014 and 2013

	2014				2013			
	Program	Management and General	Fundraising	Total	Program	Management and General	Fundraising	Total
<b>OPERATING EXPENSES</b>								
Payroll expenses	\$ 395,259	\$ 35,944	\$ 56,422	\$ 487,625	\$ 348,846	\$ 45,315	\$ 71,812	\$ 465,973
Office expenses	30,364	8,764	12,703	51,831	31,116	7,652	12,907	51,675
Professional services	-	34,911	-	34,911	-	39,581	-	39,581
Meetings and training	34,111	7,132	6,359	47,602	37,305	9,744	8,222	55,271
Interest expense	370,634	-	-	370,634	335,111	-	-	335,111
Travel	12,949	2,660	7,378	22,987	7,483	5,571	4,214	17,268
Insurance	-	4,154	628	4,782	-	7,803	555	8,358
Equipment expense	-	5,013	-	5,013	-	6,164	-	6,164
Loan trustee fees	16,100	-	-	16,100	16,100	-	-	16,100
Advertising	-	3,838	55	3,893	-	2,500	874	3,374
Administrative	8,716	23,111	1,244	33,071	10,276	17,600	1,000	28,876
Other	6,231	686	-	6,917	7,783	1,091	-	8,874
Tithe	13,139	-	-	13,139	27,338	-	-	27,338
VISTA stipends	203,422	-	-	203,422	212,933	-	-	212,933
CRV grant expense	294,000	-	-	294,000	397,068	-	-	397,068
Provision for loan losses	2,222	-	-	2,222	2,760	-	-	2,760
Depreciation	-	8,066	-	8,066	-	6,517	-	6,517
<b>Total Operating</b>	<b>1,387,147</b>	<b>134,279</b>	<b>84,789</b>	<b>1,606,215</b>	<b>1,434,119</b>	<b>149,538</b>	<b>99,584</b>	<b>1,683,241</b>
<b>NONOPERATING EXPENSES</b>								
Discounts on loans receivable originated	518,454	-	-	518,454	425,079	-	-	425,079
Amortization of discounts on revolving loan and notes payable	774,621	-	-	774,621	816,388	-	-	816,388
<b>Total Nonoperating</b>	<b>1,293,075</b>	<b>-</b>	<b>-</b>	<b>1,293,075</b>	<b>1,241,467</b>	<b>-</b>	<b>-</b>	<b>1,241,467</b>
<b>TOTAL EXPENSES</b>	<b>\$ 2,680,222</b>	<b>\$ 134,279</b>	<b>\$ 84,789</b>	<b>\$ 2,899,290</b>	<b>\$ 2,675,586</b>	<b>\$ 149,538</b>	<b>\$ 99,584</b>	<b>\$ 2,924,708</b>
Percentage based on operating expenses	86.4%	8.4%	5.3%	100.0%	85.2%	8.9%	5.9%	100.0%
Percentage based on total expenses	92.4%	4.6%	2.9%	100.0%	91.5%	5.1%	3.4%	100.0%

See accompanying notes to financial statements.

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

STATEMENTS OF CASH FLOWS  
For the Years Ended June 30, 2014 and 2013

	2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 15,106	\$ 117,444
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	8,066	6,517
Contribution of equipment	-	(12,175)
Contribution of below market interest rate debt	(542,757)	(456,444)
Discounts on loans receivable originated	518,454	425,079
Amortization of discounts on loans receivable	(735,955)	(755,243)
Amortization of discounts on revolving loan and notes payable	774,621	816,388
Provision for loan losses	2,222	2,760
Changes in operating assets and liabilities		
Accounts and interest receivable	5,240	(4,086)
Prepaid expenses and other assets	8,749	(6,095)
Accounts payable	(11,581)	12,944
Assistance to affiliates payable	(18,467)	(16,161)
Accrued payroll expenses	3,637	(2,219)
Accrued vacation	742	2,194
Deferred fee income	1,726	19,510
CRV recoverable grants	(62,000)	7,932
Other accrued expenses	(6,796)	26,110
Net Cash Flows From Operating Activities	(38,993)	184,455
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Changes in restricted cash and cash equivalents	222,953	442,029
Collections on loans receivable	2,104,839	1,977,254
Purchase of short-term investments	(497,425)	(496,193)
Proceeds on maturity of short-term investments	496,193	536,710
Purchase of equipment	(4,649)	-
Loans receivable issued	(3,586,183)	(3,817,134)
Net Cash Flows From Investing Activities	(1,264,272)	(1,357,334)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments on notes payable	(748,137)	(674,027)
Proceeds from issuance of notes payable	2,000,000	2,000,000
Net Cash Flows From Financing Activities	1,251,863	1,325,973
<b>Change in Cash and Cash Equivalents</b>	(51,402)	153,094
CASH AND CASH EQUIVALENTS - Beginning of Year	467,306	314,212
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 415,904	\$ 467,306
 Supplemental cash flow disclosures		
Cash paid for interest	\$ 361,685	\$ 325,710
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, 2014 and 2013

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

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##### *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, 2014, 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 were deployed by June 30, 2014.

During the years ended June 30, 2014 and 2013, 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 30 full-year and 24 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 \$35,000 and \$22,956 in temporarily restricted net assets for the sustainable building program at June 30, 2014 and 2013, respectively. The Organization also had \$264,100 in temporarily restricted net assets for the CDFI program at June 30, 2013.

**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, 2014 and 2013

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

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##### *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*

Loans receivable, which are issued to affiliates at below market interest rates, are initially recorded at fair market value by discounting the receivable balance. The discount is then amortized into income over the life of the loan receivable using the effective interest method.

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.

## HABITAT FOR HUMANITY OF MINNESOTA, INC.

### NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2014 and 2013

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

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##### *Discount on Notes Payable*

Notes payable, which are issued to the Organization at below market interest rates, are initially recorded at fair market value by discounting the payable balance. The discount is then amortized into expense over the life of the note payable using the effective interest method.

##### *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.

##### *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.

The Organization follows the accounting standards for contingencies in evaluating uncertain tax positions. This guidance prescribes recognition threshold principles for the 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 for uncertain tax positions as of June 30, 2014 and 2013. The Organization's tax returns are subject to review and examination by federal and state authorities. The tax returns for fiscal years 2011 and thereafter are open to examination by federal and state authorities.

##### *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.

## HABITAT FOR HUMANITY OF MINNESOTA, INC.

### NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2014 and 2013

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

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##### *Subsequent Events*

The Organization has evaluated subsequent events through October 16, 2014, which is the date that the financial statements were approved and available to be issued.

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#### NOTE 2 - LOANS RECEIVABLE

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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.

	<u>2014</u>	<u>2013</u>
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	935,220	1,117,105
Various affiliates, 1% interest, monthly payments through June 1, 2023	197,235	221,190
Various affiliates through the revolving loan fund, non-interest bearing, monthly payments through October 1, 2042	20,829,304	20,784,171
Various affiliates, 2.25%, 2.5%, 2.6% and 3.0% interest, monthly payments through November 1, 2042	<u>16,240,961</u>	<u>14,598,910</u>
Total loans receivable	38,416,084	36,934,740
Less: Unamortized discount	(9,681,438)	(9,898,939)
Less: Allowance for loan losses	<u>(57,624)</u>	<u>(55,402)</u>
Net Loans Receivable	<u>\$ 28,677,022</u>	<u>\$ 26,980,399</u>

All loans receivable are discounted based on the fair market interest rate at the time the funds are advanced. The fair market rate for 2014 and 2013 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, 2014 and 2013 were 4.08% and 3.29%, respectively.

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

**NOTES TO FINANCIAL STATEMENTS**  
As of and for the Years Ended June 30, 2014 and 2013

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

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Maturities of loans receivable based on the face amount of the loans are as follows at June 30, 2014:

Amounts due in fiscal year:	
2015	\$ 2,210,365
2016	2,231,622
2017	2,247,201
2018	2,290,156
2019	2,221,514
Thereafter	<u>27,215,226</u>
Total	<u>\$ 38,416,084</u>

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, 2014 and 2013, 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, 2014 and 2013, 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, 2014 and 2013, 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>2014</u>	<u>2013</u>
Beginning balance	\$ 55,402	\$ 52,642
Provision for loan losses	<u>2,222</u>	<u>2,760</u>
Ending balance	<u>\$ 57,624</u>	<u>\$ 55,402</u>

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**NOTE 3 - PROPERTY AND EQUIPMENT**

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

	<u>2014</u>	<u>2013</u>
Furniture and equipment	\$ 22,029	\$ 17,379
Vehicle	12,175	12,175
Less: Accumulated depreciation	<u>(23,263)</u>	<u>(15,196)</u>
Property and equipment, net	<u>\$ 10,941</u>	<u>\$ 14,358</u>

## HABITAT FOR HUMANITY OF MINNESOTA, INC.

### NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2014 and 2013

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

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The Organization has received six 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 \$1,787,000, 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, \$345,000 is for CRV #5, and \$232,000 is for CRV #6. During the years ended June 30, 2014 and 2013, the Organization disbursed \$294,000 and \$397,068, respectively, to Owner-Occupants of Qualified Dwelling Units. The undistributed portion of \$22,000 and \$84,000 as of June 30, 2014 and 2013, 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.

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

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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, 2014 and 2013 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, 2014 and 2013 was \$6,980,869 and \$7,217,664, 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, 2014 and 2013

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**NOTE 6 - NOTES PAYABLE**

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Notes payable consisted of the following at June 30:

	<u>2014</u>	<u>2013</u>
Note payable to MHFA, 3%, due in quarterly installments of \$10,834 through July 1, 2018	\$ 172,320	\$ 209,783
Note payable to MHFA, 3%, due in quarterly installments of \$10,834 through February 1, 2019	191,192	228,099
Note payable to MHFA, 3%, due in quarterly installments of \$10,834 through January 1, 2020	228,099	263,919
Note payable to Wells Fargo Housing Foundation, 1%, due in quarterly installments of \$4,833 through July 1, 2018	80,333	98,745
Note payable to Wells Fargo Housing Foundation, 1%, due in quarterly installments of \$4,833 through February 1, 2019	89,562	107,883
Note payable to Wells Fargo Housing Foundation, 1%, due in quarterly installments of \$4,833 through January 1, 2020	107,882	126,020
Note payable to Wells Fargo Housing Foundation, 1%, due in quarterly installments of \$4,833 through October 1, 2020	121,502	139,505
Note payable to Wells Fargo Housing Foundation, 1%, due in quarterly installments of \$4,833 through February 1, 2022	143,977	161,756
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, 2039	3,849,745	2,920,892
Note Payable to MHFA, 0%, unsecured, due in quarterly installments of \$20,000 through January 1, 2039	3,720,000	2,850,000
Note payable to MHFA, 2%, unsecured, due in quarterly installments of \$127,319 through January 1, 2035	<u>7,939,494</u>	<u>8,285,641</u>
Total notes payable	16,896,106	15,644,243
Less: Unamortized discount	<u>(3,146,668)</u>	<u>(3,141,737)</u>
Net Notes Payable	<u>\$ 13,749,438</u>	<u>\$ 12,502,506</u>

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

**NOTES TO FINANCIAL STATEMENTS**  
As of and for the Years Ended June 30, 2014 and 2013

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

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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, 2014:

Year Ending June 30:	
2015	\$ 808,597
2016	824,680
2017	841,256
2018	942,341
2019	897,006
Thereafter	<u>12,582,226</u>
Total	<u>\$ 16,896,106</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, 2014 and 2013 were based on a 60 basis point spread over 30 year treasury bills, which was 4.08% and 3.29%, respectively.

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**NOTE 7 - CONCENTRATIONS**

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During the years ended June 30, 2014 and 2013, the Organization received 98% of its financing through one institution, Minnesota Housing Finance Agency. The Organization is current on all notes payable.

As of June 30, 2014 and 2013, approximately 65% of the loans made by the Organization were to the Twin Cities Habitat for Humanity affiliate.

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**NOTE 8 - COMMITMENTS**

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The Organization has entered into a lease agreement for office space. The agreement calls for monthly payments through May 2015. Total lease expense was \$30,430 for each of the years ended June 30, 2014 and 2013. Future lease commitments for fiscal year 2015 are \$27,894.

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

**NOTES TO FINANCIAL STATEMENTS**  
As of and for the Years Ended June 30, 2014 and 2013

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**NOTE 9 - RELATED PARTIES**

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Twin Cities Habitat for Humanity (TC-HFH) administers the Organization's payroll and employee benefit plans. At June 30, 2014 and 2013, the Organization owed TC-HFH \$35,918 and \$42,349, 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.

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

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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 \$9,053 and \$8,440 for the years ended June 30, 2014 and 2013, respectively.