

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

*(A Non-Profit Corporation)*

**AUDITED FINANCIAL STATEMENTS**

Year Ended June 30, 2023 with  
Comparative Totals for 2022



## INDEPENDENT AUDITORS' REPORT

Board of Directors

### HABITAT FOR HUMANITY OF MINNESOTA

#### *Opinion*

We have audited the financial statements of Habitat for Humanity of Minnesota, Inc. (the Organization), which comprise the statement of financial position as of June 30, 2023, and the related statement of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Habitat for Humanity of Minnesota, Inc. as of June 30, 2023, and the changes in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### *Basis for Opinion*

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Responsibilities of Management for the Financial Statements*

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

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## ***Auditors' Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users made on the basis of these financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

### ***Emphasis of Matter with Respect to Changes in Accounting Principle***

As discussed in Note 1 to the financial statements, the Organization changed its method of accounting for leases as a result of the adoption of Accounting Standards Codification Topic 842, *Leases*, effective July 1, 2022, under the modified retrospective transition method. Our opinion is not modified with respect to this matter.

As discussed in Note 2 to the financial statements, the Organization changed its method of accounting for loans receivable and loans payable by no longer applying a discount to those loans. Our opinion is not modified with respect to this matter.

### ***Other Matter***

Other auditors have audited the Organization's 2022 financial statements and expressed an unmodified opinion on those audited financial statements in their report dated January 20, 2023. The summarized comparative information presented herein as of and for the year ended June 30, 2022, was derived from those financial statements.

*Mayer Hoffman McCann P.C.*

Minneapolis, Minnesota  
November 16, 2023

HABITAT FOR HUMANITY OF MINNESOTA, INC.

STATEMENTS OF FINANCIAL POSITION

June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
<b><u>ASSETS</u></b>		
Cash and cash equivalents	\$ 2,571,112	\$ 2,186,542
Restricted cash and cash equivalents	871,228	2,285,315
Interest receivable	27,542	27,237
Prepaid expenses and other assets	48,902	84,064
Property and equipment, net	23,212	2,760
Operating lease right-of-use assets	92,849	-
Loans receivable, less allowance	33,117,269	31,340,132
TOTAL ASSETS	<u>\$ 36,752,114</u>	<u>\$ 35,926,050</u>
<b><u>LIABILITIES</u></b>		
Accounts payable	78,091	94,768
Assistance to affiliates payable	-	47,846
Accrued expenses	116,085	155,258
Deferred fee income	338,899	451,825
Deposits on loans receivable from affiliates	-	16,366
CRV recoverable grants	93,669	69,911
Revolving loans payable	21,157,927	21,157,927
Notes payable	10,353,130	11,104,248
Operating lease liabilities	92,849	-
TOTAL LIABILITIES	<u>32,230,650</u>	<u>33,098,149</u>
<b><u>NET ASSETS</u></b>		
NET ASSETS		
Without donor restrictions	4,347,206	2,816,173
With donor restrictions	174,258	11,728
TOTAL NET ASSETS	<u>4,521,464</u>	<u>2,827,901</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 36,752,114</u>	<u>\$ 35,926,050</u>

See Notes to Financial Statements

# HABITAT FOR HUMANITY OF MINNESOTA, INC.

## STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2023 with Comparative Totals for 2022

	Without Donor Restrictions	With Donor Restrictions	Totals	
			2023	2022
<b><u>PUBLIC SUPPORT AND REVENUE</u></b>				
Contributions	\$ 1,379,202	\$ 184,920	\$ 1,564,122	\$ 390,123
Government grants	579,920	-	579,920	450,000
Program fees	311,856	-	311,856	164,836
Loan interest income	403,472	-	403,472	340,025
Habitat 500 revenue	108,237	-	108,237	62,660
Forgiveness of PPP loan	-	-	-	108,197
Other income (loss)	41,652	-	41,652	41,963
Conference revenue	38,444	-	38,444	-
Net assets released from restrictions	22,390	(22,390)	-	-
TOTAL PUBLIC SUPPORT AND REVENUE	2,885,173	162,530	3,047,703	1,557,804
<b><u>EXPENSES</u></b>				
PROGRAM SERVICES	950,954	-	950,954	961,287
SUPPORTING SERVICES				
Management and general	328,285	-	328,285	249,985
Fundraising	74,901	-	74,901	10,977
TOTAL SUPPORTING SERVICES	403,186	-	403,186	260,962
TOTAL EXPENSES	1,354,140	-	1,354,140	1,222,249
CHANGE IN NET ASSETS	1,531,033	162,530	1,693,563	335,555
NET ASSETS, BEGINNING OF YEAR AS PREVIOUSLY REPORTED	2,816,173	11,728	2,827,901	2,927,128
Change in accounting principle	-	-	-	(434,782)
NET ASSETS, BEGINNING OF YEAR, RETROSPECTIVELY ADJUSTED	2,816,173	11,728	2,827,901	2,492,346
NET ASSETS, END OF YEAR	\$ 4,347,206	\$ 174,258	\$ 4,521,464	\$ 2,827,901

See Notes to Financial Statements

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

**STATEMENT OF FUNCTIONAL EXPENSES**

For the Year Ended June 30, 2023 with Comparative Totals for 2022

	Supporting Services			Total Supporting Services	Total 2023	Total 2022
	Program Services	Management and General	Fundraising			
Salaries, taxes and benefits	\$ 477,968	\$ 128,286	\$ 65,388	\$ 193,674	\$ 671,642	\$ 448,573
Office expenses	73,193	27,986	6,477	34,463	107,656	61,181
Professional fees	71,236	157,210	1,322	158,532	229,768	172,412
Meetings and training	34,857	1,545	486	2,031	36,888	8,953
Interest expense	201,476	-	-	-	201,476	210,757
Travel	13,100	1,444	192	1,636	14,736	5,730
Insurance	-	8,436	-	8,436	8,436	6,606
Administrative	3,866	117	313	430	4,296	26
Loan trustee fees	11,100	-	-	-	11,100	14,017
Advertising	634	385	30	415	1,049	1,223
Other expense	12,620	2,143	572	2,715	15,335	38,162
Tithe	9,386	-	-	-	9,386	20,000
Provision loan losses (recoveries)	39,866	-	-	-	39,866	(435)
Provision for forgivable loans	-	-	-	-	-	230,000
Depreciation	1,652	733	121	854	2,506	5,044
<b>Total expenses</b>	<b>\$ 950,954</b>	<b>\$ 328,285</b>	<b>\$ 74,901</b>	<b>\$ 403,186</b>	<b>\$ 1,354,140</b>	<b>\$ 1,222,249</b>

See Notes to Financial Statements

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

**STATEMENTS OF CASH FLOWS**

For the Years Ended June 30, 2023 and 2022

	<b>2023</b>	<b>2022</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 1,693,563	\$ 335,555
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation expense	2,506	5,044
Provision for loan losses (recoveries)	39,866	229,565
Forgiveness of PPP loan	-	(108,197)
Operating lease expense	59,862	-
Changes in operating assets and liabilities:		
Interest receivable	(305)	1,830
Loans receivable	(1,817,002)	836,770
Prepaid expenses and other assets	35,162	(40,808)
Accounts payable	(16,677)	81,823
Assistance to affiliates payable	(47,846)	4,227
Accrued expenses	(39,173)	(2,758)
Deferred fee income	(112,926)	81,120
Deposits on loans receivable from affiliates	(16,366)	-
CRV Recoverable grants	23,758	44,851
Operating lease liabilities	(59,862)	-
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>(255,440)</b>	<b>1,469,022</b>
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(22,958)	-
<b>NET CASH FROM INVESTING ACTIVITIES</b>	<b>(22,958)</b>	<b>-</b>
 <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Principal payments on notes payable	(751,119)	(2,353,333)
<b>NET CASH FROM FINANCING ACTIVITIES</b>	<b>(751,119)</b>	<b>(2,353,333)</b>
<b>NET INCREASE (DECREASE)</b>	<b>(1,029,517)</b>	<b>(884,311)</b>
 <b>CASH AND CASH EQUIVALENTS - UNRESTRICTED AND RESTRICTED</b>		
BEGINNING OF YEAR	4,471,857	5,356,168
END OF YEAR	<b>\$ 3,442,340</b>	<b>\$ 4,471,857</b>
 <b>Supplemental disclosure of cash flow information</b>		
CASH PAID FOR INTEREST	<b>\$ 201,000</b>	<b>\$ 326,000</b>

See Notes to Financial Statements



# HABITAT FOR HUMANITY OF MINNESOTA, INC.

## NOTES TO FINANCIAL STATEMENTS

### ( 1 ) Summary of significant accounting policies

**Organization** - Habitat for Humanity of Minnesota, Inc. (the Organization) is a nonprofit corporation incorporated under the Minnesota Nonprofit Corporation Act. 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, 2023, there were 25 affiliates providing housing solutions.

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 programs, 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).

**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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Income tax status** - The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and applicable state law.

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.

The Organization files forms 990 in the U.S. federal jurisdiction and the State of Minnesota. The Organization is generally no longer subject to examination by federal and state authorities for three years after the date of filing, including extensions.

# HABITAT FOR HUMANITY OF MINNESOTA, INC.

## NOTES TO FINANCIAL STATEMENTS

### ( 1 ) Summary of significant accounting policies (continued)

**Financial statement presentation** - The Organization reports information regarding its financial position and activities based on the existence or absence of donor-imposed restrictions. Accordingly net assets of the organization and changes therein are classified and reported as follows:

- Net assets without donor restrictions – Net assets available for general use and not subject to donor-imposed restrictions. These may be used at the discretion of the Organization’s management and board of directors. Designated amounts represent those revenues which the Board has set aside for a particular purpose.
- Net assets with donor restrictions – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature that may or will be met, either by the passage of time or by actions of the Organization. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

**Going concern** – Management assesses the Organization’s ability to continue as a going concern and provides related disclosures in certain circumstances. Substantial doubt about an Organization’s ability to continue as a going concern exists when relevant conditions and events, considered in the aggregate, indicate that it is probable the entity will be unable to meet its obligations as they become due within one year after the date that the financial statements are issued. Management has determined there is not substantial doubt about the Organization’s ability to continue as a going concern.

**Contributions** - Contributions are recognized as revenue when they are received or unconditionally pledged. Conditional contributions are recorded as revenue when such amounts become unconditional which generally involves the meeting of a barrier to entitlement. This can include items like meeting a matching provision, incurring specified allowable expenses in accordance with a framework of allowable costs or other barriers. The Organization records conditional contributions received in advance of conditions being met as refundable advances.

Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Contributions received with donor-imposed conditions and restrictions are reported as an increase in net assets without donor restrictions if the conditions and restrictions are met in the reporting period in which the contribution is recognized. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

**Government grants and contracts** - Government contracts are typically designated for use by specific programs and/or are conditional upon future events. Advances and/or revenue from such grants are deferred until such conditions are met or services rendered. Expenditures under government contracts are subject to review by the granting authority. To the extent, if any, that such a review reduces expenditures allowable under these contracts, the Organization will record such disallowance at the time the determination is made.

## HABITAT FOR HUMANITY OF MINNESOTA, INC.

### NOTES TO FINANCIAL STATEMENTS

#### ( 1 ) Summary of significant accounting policies (continued)

**Revenue recognition** - Program fees are primarily loan closing fees paid by the affiliates. The majority of the revenue is recognized upon closing of the loan, however, fees collected above a standard fixed fee, due to additional components, are deferred and amortized over the life of the loan.

**Cash and cash equivalents** - The Organization considers cash in demand deposit accounts and temporary investments purchased with an original maturity of three months or less to be cash equivalents. The Organization maintains its cash and cash equivalents with high credit quality financial institutions. From time to time, the Organization's balances in its bank accounts exceed Federal Deposit Insurance Corporation limits. The Organization periodically evaluates the risk of exceeding insurance levels and may transfer funds as it deems appropriate. The Organization has not experienced any losses with regards to balances in excess of insured limits or as a result of other concentrations of credit risk.

**Restricted cash** – 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.

**Loans receivable and allowance for loan losses** - Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are generally reported at their outstanding unpaid principal balances adjusted for charge-offs and the allowance for loan losses. Interest on loans is accrued and credited to income based on the unpaid principal balance.

The accrual of interest on loans is discontinued when, in the opinion of management, there is an indication the borrower may be unable to make payments as they become due. When loans are placed on nonaccrual or charged off, all unpaid accrued interest is reversed against interest income. The interest on these loans is subsequently accounted for on a cash basis until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

The allowance for loan losses is established through a provision for loan losses charged to expense as losses are estimated to occur based on past experience and other factors. Loan losses are charged against the allowance when management believes that the collectability of the principal is unlikely. Subsequent recoveries, if any, are credited to the allowance.

**Property and equipment** - Property and equipment are stated at cost if purchased, or fair market value on the date received if donated, less accumulated depreciation. Additions with a cost more than \$1,500 and an estimated useful life of more than one year are capitalized. Property and equipment are depreciated over their estimated useful lives which range from three to five years, using the straight-line method.

When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized as income for the period. The cost of maintenance and repairs is expensed as incurred.

## HABITAT FOR HUMANITY OF MINNESOTA, INC.

### NOTES TO FINANCIAL STATEMENTS

#### ( 1 ) Summary of significant accounting policies (continued)

**Long-lived assets** - Long-lived assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Determination of recoverability is based on an estimate of undiscounted future cash flows resulting from the use of the asset and its eventual disposition. Measurement of an impairment loss for long-lived assets that management expects to hold and use is based on the fair value of the asset. Long-lived assets to be disposed of are reported at the lower of carrying amount or fair value less costs to sell. The Organization has determined that no indications of impairment existed at June 30, 2023 and 2022.

**Deferred fee income** – The Organization charges an origination fee on new loans receivable. Fee income collected above a standard fixed fee is recorded as deferred fee income and amortized over the term of the related loan.

**CRV recoverable grants** – The Organization records Community Revitalization Fund Program grant funds received that have not yet been disbursed for their intended purpose as CRV recoverable grants.

**Donated services and materials** – Donated materials are recorded as contributions at their estimated fair market value in the period received. Donated services are recorded as contributions at their estimated fair value only if the services create or enhance a nonfinancial asset or if the services require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

**Functional allocation of expenses** – The financial statements report certain categories of expenses that are attributable to one or more program or supporting functions of the Organization. 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.

**Leases** – The Organization determines if an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use (ROU) assets and operating lease liabilities in the Organization's statement of financial position. ROU assets represent the Organization's right to use an underlying asset for the lease term and lease liabilities represent the Organization's obligation to make lease payments arising from the lease.

Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As most of the Organization's leases do not provide an implicit rate, it uses a risk-free rate based on the information available at commencement date in determining the present value of lease payments. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

# HABITAT FOR HUMANITY OF MINNESOTA, INC.

## NOTES TO FINANCIAL STATEMENTS

### ( 1 ) Summary of significant accounting policies (continued)

**Leases (continued)** - The Organization accounts for the lease and non-lease components as a single lease component. For arrangements accounted for as a single lease component, there may be variability in future lease payments as the amount of the non-lease components is typically revised from one period to the next. Variable lease payments are recognized in operating expenses in the period in which the obligation for those payments was incurred. The Organization has elected to apply the short-term lease exemption to all classes of underlying assets.

**Accounting pronouncement recently adopted** – In February 2016, the Financial Accounting Standards Board (“FASB”) issued ASU 2016 – 02, *Leases* (ASC 842) that requires lessees to recognize a right-of-use asset and lease liability on the statement of financial position and disclose key information about leasing arrangements. The recognition, measurement and presentation of expenses and cash flows arising from an operating lease by a lessee have not significantly changed from current U.S. GAAP. The Organization adopted the standard effective July 1, 2022, and recognized and measured leases existing at July 1, 2022 through a cumulative effect adjustment. Lease disclosures for the year ended June 30, 2022 are made under prior lease guidance in FASB ASC 840.

The Organization elected the available practical expedients to account for the existing operating leases under the new guidance, without reassessing (a) whether the contracts contain leases under the new standard, (b) whether classification of operating leases would be different in accordance with the new guidance, or (c) whether the unamortized initial direct costs before transition adjustments would have met the definition of initial direct costs in the new guidance at lease commencement.

The standard had a material impact on the Organization’s statement of financial position but did not have a material impact on its statement of activities, nor statements of cash flows. The Organization recognized operating lease liabilities of approximately \$153,000 and related operating lease right-of-use assets of approximately \$153,000 on July 1, 2022.

**New accounting pronouncements** - ASU No. 2016-13, *Measurement of Credit Losses on Financial Instruments* - This standard will significantly change how financial assets measured at amortized cost are presented. Such assets, which include most loans, will be presented at the net amount expected to be collected over their remaining contractual lives. Estimated credit losses will be based on relevant information about historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amounts. The standard will also change the accounting for credit losses related to securities available for sale and purchased financial assets with a more-than-insignificant amount of credit deterioration since origination. This new accounting standard is effective for financial statements issued for annual periods beginning after December 15, 2022. The Organization is evaluating the impact this standard will have on its financial statements.

**Risks and uncertainties** – The Organization is exposed to various known and unknown risks and uncertainties. Risks include internal and external events and conditions (e.g., pandemics, international conflicts, labor market and supply chain disruption, government mandates and policies, volatile financial markets, etc.) which could impact the value of investment securities, the availability of grants and contributions, and the ability to provide program services.

# HABITAT FOR HUMANITY OF MINNESOTA, INC.

## NOTES TO FINANCIAL STATEMENTS

### ( 1 ) Summary of significant accounting policies (continued)

**Risks and uncertainties (continued)** - It is at least reasonably possible that changes could occur in the near term and that such changes could materially affect the results of changes in net assets and financial position.

**Summarized information** - The financial statements include certain prior year summarized comparative information in total but neither by net assets nor by functionalized expenses. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2022, from which the summarized information was derived.

**Subsequent events policy** - Subsequent events have been evaluated through November 16, 2023 which is the date the financial statements were available to be issued.

### ( 2 ) Change in accounting principle

The Organization changed its method of accounting for loans receivable and loans payable by no longer applying a discount to those loans effective July 1, 2022. Previously the Organization had been appropriately applying an accounting principle by discounting its loans. The Organization has determined that the change in accounting principle is preferable since it better reports the results of the Organization's operations and that it is common for other not-for-profit entities to not discount their programmatic loans. The financial statements for the year ended June 30, 2022 have been adjusted to apply the new method retrospectively. The cumulative effect decreases beginning net assets without donor restrictions as of July 1, 2021 by approximately \$435,000.

The following financial statement line items for the year ended June 30, 2022 were affected by the change in accounting principle:

	As Previously Reported	Adjustment	Retrospectively Adjusted
Statement of financial position:			
Loans receivable, net of allowance	\$ 31,340,132	\$ -	\$ 31,340,132
Unamortized discount on loans receivable	(5,814,359)	5,814,359	-
Revolving loans payable	21,157,927	-	21,157,927
Notes payable	11,104,248	-	11,104,248
Unamortized discount on revolving loan and notes payable	(6,390,859)	6,390,859	-
Net assets	3,404,400	(576,500)	2,827,900
Statement of activities:			
Amortization of discounts on loans receivable	539,152	(539,152)	-
Amortization of discounts on revolving loan and notes payable	(397,435)	397,435	-

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

**NOTES TO FINANCIAL STATEMENTS**

**( 3 ) Liquidity and availability**

The following table reflects the Organization's financial assets as of June 30, 2023 and 2022, available for general expenditures within one year. Financial assets are considered unavailable when illiquid or not convertible to cash within one year. Other financial assets excluded from this measure of liquidity include reserves that can only be used for loans to affiliates.

	<b>2023</b>	<b>2022</b>
Cash and cash equivalents	\$ 2,571,112	\$ 2,186,542
Interest receivable	27,542	27,237
Loans receivable due in the next fiscal year	3,298,488	2,271,084
 Total financial assets available to meet general expenditures within one year	 \$ 5,897,142	 \$ 4,484,863

As part of the Organization's liquidity management, the Organization structures its financial assets to be available as its general expenditures, liabilities and other obligations come due. The Organization's policy on cash operating reserves includes maintaining undesignated cash and short term investment balances at all times equal to a minimum of six months of adjusted estimated operating expenses.

**( 4 ) Conditional promises to give**

Conditional promises to give are not recognized as revenue or as a receivable until such amounts become unconditional.

Conditional promises to give at June 30, 2023 and 2022, consist of promises to:

	<b>2023</b>	<b>2022</b>
Capacity building grant - MN Housing	\$ 54,035	\$ -
Provide necessary capital for Community Development Financial Institutions (CDFI) to respond to economic challenges created by COVID-19	-	450,000
Total	\$ 54,035	\$ 450,000

**( 5 ) 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.

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

**NOTES TO FINANCIAL STATEMENTS**

**( 5 ) Loans receivable (continued)**

Loans receivable at June 30, 2023 and 2022, consisted of the following:

	<b>2023</b>	<b>2022</b>
Various affiliates through the revolving loan fund, noninterest bearing, monthly payments due with various maturity dates through July 2057.	\$ 18,017,170	\$ 18,687,322
Various affiliates, interest rates ranging from 2.25% to 3.0%, monthly payments due with various maturity dates through November 2042.	10,866,429	11,658,099
Various affiliates and strategic partners, 0% and 2.5% interest rates, monthly payments due with various maturity dates through January 2033 including forgivable loans of \$230,000 and \$230,000, respectively.	800,000	450,000
Forgivable second mortgages to homeowners through the revolving loan fund, with first mortgages issued by various affiliates, noninterest bearing with various maturity dates through March 2068.	380,000	400,000
Second mortgages to homeowners through the revolving loan fund, with mortgages issued by various affiliates, noninterest bearing, monthly payments due starting on the first day of second month following payment in full of first mortgage with various maturity dates through June 2064.	2,570,000	510,000
Strategic partner loan, 2.5% interest, monthly interest payments due through December 2023 maturity date.	900,000	-
Various affiliates, noninterest bearing, lump sum payments due through 2022.	-	11,176
Total loans receivable	33,533,599	31,716,597
Less: Allowance for loan losses	(416,330)	(376,465)
Total loans receivable, net	\$ 33,117,269	\$ 31,340,132



## HABITAT FOR HUMANITY OF MINNESOTA, INC.

### NOTES TO FINANCIAL STATEMENTS

#### ( 5 ) Loans receivable (continued)

The allowance for loan losses at June 30, 2023 and 2022, consisted of the following:

	<u>2023</u>	<u>2022</u>
CDFI RRP forgivable loans	\$ 230,000	230,000
General loan reserves	186,330	146,465
Allowance for loan losses	<u>\$ 416,330</u>	<u>\$ 376,465</u>

The change in the allowance for loan losses consisted of the following:

	<u>2023</u>	<u>2022</u>
Balance, July 1	\$ 376,465	\$ 148,843
Provision for CDFI RRP forgivable loans	-	230,000
Provision for loan losses	39,865	(435)
Loans written off (recoveries)	-	(1,943)
Balance, June 30	<u>\$ 416,330</u>	<u>\$ 376,465</u>

The Organization conducts a quarterly evaluation of each affiliate and strategic partner 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.

The Organization has established a pool reserve of 200 basis points for second mortgages lent directly to homeowners and a pool reserve of 1,000 basis points for forgivable second mortgages lent directly to homeowners.

The Organization has \$230,000 of forgivable loans to its affiliates funded by CDFI RRP funds that it expects will be forgiven because the conditions for meeting the terms for forgiveness are administrative in nature. As a result, the Organization has fully reserved these receivables.

A loan is considered delinquent when the 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, 2023 and 2022, 100% of the Organization's loans were current.

The Organization has no impaired loans.

# HABITAT FOR HUMANITY OF MINNESOTA, INC.

## NOTES TO FINANCIAL STATEMENTS

### (6) Property and equipment

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

	<u>2023</u>	<u>2022</u>
Furniture and fixtures	\$ 6,072	\$ 6,072
Equipment	48,719	29,159
Vehicles	<u>3,398</u>	<u>-</u>
Total property and equipment	58,189	35,231
Less accumulated depreciation	<u>(34,977)</u>	<u>(32,471)</u>
Total property and equipment, net	<u><u>\$ 23,212</u></u>	<u><u>\$ 2,760</u></u>

### (7) Paycheck Protection Program loan

The Organization applied for and received a forgivable Paycheck Protection Program (PPP) loan of \$108,197 as provided under the Federal Coronavirus Aid, Relief, and Economic Security Act during the year ended June 30, 2021. The Organization accounted for this PPP loan under the debt model under which the Organization will recognize a gain on debt extinguishment upon receiving notice of legal release. The Organization used all of the proceeds for eligible costs. In December 2021, the Organization received notice of legal release for the obligation in the amount of \$108,197 from the Small Business Administration and recognized a forgiveness of PPP loan in the statement of activities during the year ending June 30, 2022.

### (8) CRV recoverable grants

The Organization has received CRV recoverable grant awards 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 receive such a repayment, it would need to repay MHFA unless the Organization, within 6 months, redeploys that amount to another Owner-Occupant to acquire another Qualified Dwelling Unit.

The remaining balance of these recoverable grant awards totaled \$3,168,500 as of June 30, 2023 and 2022, of which \$94,000 and \$70,000 remained undisbursed, respectively. As of June 30, 2023 and 2022, the undisbursed balance of returned grant awards is included as both a liability and restricted cash and cash equivalents in the accompanying statement of financial position. During the year ended June 30, 2023, the Organization received \$94,000 in returned grant awards and redeployed \$70,000.

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

**NOTES TO FINANCIAL STATEMENTS**

**( 9 ) Revolving loans 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, 2023 and 2022 was \$21,157,927.

**( 10 ) Notes payable**

Notes payable are used to finance loans receivable. Notes payable consisted of the following at June 30:

	<b>June 30,</b>	
	<b>2023</b>	<b>2022</b>
Notes payable to MHFA with interest at 5%, unsecured, due in quarterly installments of \$17,574 with maturity dates ranging from January 2036 through January 2041.	\$ 2,086,160	\$ 2,189,494
Notes payable to MHFA with interest at 0%, unsecured, due in quarterly installments totalling \$60,000 with maturity dates ranging from January 2036 through January 2041.	3,660,000	3,900,000
Notes payable to MHFA with interest at 2%, unsecured, due in quarterly installments totalling \$129,000 with maturity dates ranging from January 2031 through January 2036.	4,606,970	5,014,754
Total notes payable	\$ 10,353,130	\$ 11,104,248

Maturity requirements on notes payable are as follows:

**Years Ending December 31,**

2024	\$ 765,000
2025	778,000
2026	793,000
2027	808,000
2028	823,000
Thereafter	6,386,000
Total	\$ 10,353,000

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

**NOTES TO FINANCIAL STATEMENTS**

**( 10 ) Notes payable (continued)**

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.

**( 11 ) Net assets**

Net assets are summarized as follows as of June 30, 2023:

Detail of Net Assets	Without Donor Restrictions	With Donor Restrictions	Total
Undesignated	\$ 4,347,206	\$ -	\$ 4,347,206
Restricted for specific purposes:			
Programming	-	24,258	24,258
Subject to passage of time	-	150,000	150,000
	<u>\$ 4,347,206</u>	<u>\$ 174,258</u>	<u>\$ 4,521,464</u>

Net assets are summarized as follows as of June 30, 2022:

Detail of Net Assets	Without Donor Restrictions	With Donor Restrictions	Total
Undesignated	\$ 2,816,173	\$ -	\$ 2,816,173
Restricted for specific purposes:			
Programming	-	11,728	11,728
	<u>\$ 2,816,173</u>	<u>\$ 11,728</u>	<u>\$ 2,827,901</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes, by the occurrence of the passage of time, or by the occurrence of other events specified by donors for programs. Net assets released from restrictions for the years ended June 30, 2023 and 2022 are as follows:

	<u>2023</u>	<u>2022</u>
Purpose restriction accomplished:		
Programming	<u>\$ 22,390</u>	<u>\$ 26,272</u>
Total restrictions accomplished	<u>\$ 22,390</u>	<u>\$ 26,272</u>

# HABITAT FOR HUMANITY OF MINNESOTA, INC.

## NOTES TO FINANCIAL STATEMENTS

### ( 12 ) Leases

The Organization has an operating lease agreement for office space running through December 2024. The Organization also leases certain office equipment. Base monthly lease payments for the two leases total \$5,300. There are two renewal options for the office space lease for one-year periods; base rent will increase 3% from the end of the previous lease term during each renewal period at the time the option is exercised. The Organization has not included the options to renew the lease when assessing the value of the operating lease liability and related ROU asset because the Organization is not reasonably certain that it will exercise the options.

The Organization also subleases a portion of its office space to another organization. The sublease runs through December 2024. Base monthly lease payments to be received are \$2,000. There are two renewal options for one-year periods; base rent will increase 3% from the end of the previous lease term during each renewal period at the time the option is exercised.

Lease expense as accounted for under Legacy ASC Topic 840 was approximately \$35,000 for the year ended June 30, 2022.

The components of operating lease expense are as follows:

	<b>Year Ended June 30, 2023</b>
Operating lease costs	\$ 63,023
Variable lease costs	-
Short term lease costs	2,241
Sublease income	<u>(24,000)</u>
Total lease cost	<u>\$ 41,264</u>

Cash paid for amounts included in the measurement of lease liabilities:

Operating cash flows from operating leases	\$ 63,023
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Weighted average remaining lease term (in years):

Operating leases	1.5
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Weighted average discount rate:

Operating leases	2.8%
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## HABITAT FOR HUMANITY OF MINNESOTA, INC.

### NOTES TO FINANCIAL STATEMENTS

#### ( 12 ) Leases (continued)

The following is a summary of the future minimum annual lease payments required under operating leases at June 30, 2023:

<u>Years Ending December 31,</u>	
2024	\$ 63,000
2025	32,000
Total future minimum operating lease payments	95,000
Less imputed interest	(2,000)
Total operating lease liabilities	<u>\$ 93,000</u>

#### ( 13 ) Concentrations

During the years ended June 30, 2023 and 2022, the Organization received substantially all its debt financing through one institution, Minnesota Housing Finance Agency. The Organization is current on all notes payable.

As of June 30, 2023 and 2022, approximately 48% and 55%, respectively, of the loans outstanding were to the Twin Cities Habitat for Humanity affiliate.

#### ( 14 ) Related party transactions

Twin Cities Habitat for Humanity (TC-HFH) administers the Organization's payroll and employee benefit plans. At June 30, 2023 and 2022, the Organization owed TC-HFH \$69,000 and \$35,000, 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.

Pro bono legal services were provided by a firm employing a member of the board of directors. The pro bono legal services are valued at \$27,000 and have been reported as contribution revenue and as expense in the statement of activities for the year ended June 20, 2023.

#### ( 15 ) Retirement 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 \$12,000 and \$10,000 for the years ended June 30, 2023 and 2022, respectively.

HABITAT FOR HUMANITY OF MINNESOTA, INC.

NOTES TO FINANCIAL STATEMENTS

( 16 ) **Supplemental disclosure of cash flow information**

A reconciliation of cash and cash equivalents – unrestricted and restricted within the statement of financial position that reconciles to the total of the same amounts shown in the statement of cash flows as of June 30, 2023 and 2022, is as follows:

	<u>2023</u>	<u>2022</u>
Components of cash and cash equivalents		
Cash and cash equivalents	\$ 2,571,112	\$ 2,186,542
Restricted cash and cash equivalents	871,228	2,285,315
	<u>\$ 3,442,340</u>	<u>\$ 4,471,857</u>

( 17 ) **Reclassification**

Certain reclassifications have been made to the financial statements for the year ended June 30, 2022 to conform to the classifications of the current year. The reclassifications did not affect financial position or changes in net assets.