

CENTRAL MINNESOTA HABITAT FOR HUMANITY
FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2019 AND 2018

**CENTRAL MINNESOTA HABITAT FOR HUMANITY
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Central Minnesota Habitat for Humanity
St. Cloud, Minnesota

We have audited the accompanying financial statements of Central Minnesota Habitat for Humanity (a nonprofit organization), which comprise the statements of financial position as of June 30, 2019 and 2018, 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 audit 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.

Board of Directors
Central Minnesota Habitat for Humanity

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Central Minnesota Habitat for Humanity as of June 30, 2019 and 2018, 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.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

St. Cloud, Minnesota
October 24, 2019

**CENTRAL MINNESOTA HABITAT FOR HUMANITY
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2019 AND 2018**

ASSETS	2019	2018
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 48,958	\$ 167,200
Accounts Receivable	130	170
Current Maturities of Pledges Receivable	23,206	32,953
Current Maturities of Mortgages Receivable	82,295	79,698
Construction in Progress	570,476	150,230
Inventory	10,327	11,816
Homeowner Escrows	19,538	23,551
Prepaid Expenses	13,133	5,587
Total Current Assets	768,063	471,205
MORTGAGES RECEIVABLE, Net of Current Portion and Discount	2,182,812	2,248,975
PROPERTY AND EQUIPMENT		
Equipment	32,792	32,792
Vehicles	8,499	8,499
Total Property and Equipment	41,291	41,291
Less: Accumulated Depreciation	(38,190)	(37,024)
Total Property and Equipment (at Depreciated Cost)	3,101	4,267
OTHER ASSETS		
Pledges Receivable, Net of Current Portion and Discount	14,377	39,898
Real Estate Available for Development	-	685,752
Real Estate Available for Sale	580,460	32,774
Refundable Deposits	1,661	1,661
Total Other Assets	596,498	760,085
Total Assets	\$ 3,550,474	\$ 3,484,532

See accompanying Notes to Financial Statements.

**CENTRAL MINNESOTA HABITAT FOR HUMANITY
STATEMENTS OF FINANCIAL POSITION (CONTINUED)
JUNE 30, 2019 AND 2018**

	2019	2018
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	\$ 28,052	\$ 37,073
Accrued Payroll Liabilities	36,669	25,161
Homeowner Escrows	19,538	23,551
Short-Term Debt	55,209	60,599
Current Maturities of Long-Term Debt	86,584	94,769
Total Current Liabilities	226,052	241,153
Long-Term Debt, Net of Current Maturities and Discount	1,207,052	1,090,418
Total Liabilities	1,433,104	1,331,571
NET ASSETS		
Without Donor Restrictions:		
Undesignated	2,026,152	1,980,457
Board Designated	-	99,653
With Donor Restrictions	91,218	72,851
Total Net Assets	2,117,370	2,152,961
Total Liabilities and Net Assets	\$ 3,550,474	\$ 3,484,532

See accompanying Notes to Financial Statements.

**CENTRAL MINNESOTA HABITAT FOR HUMANITY
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2019 AND 2018**

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES AND SUPPORT						
Home Sales	\$ 297,128	\$ -	\$ 297,128	\$ 416,194	\$ -	\$ 416,194
ReStore Sales	-	-	-	67,739	-	67,739
Contributions	106,314	182,510	288,824	357,141	45,236	402,377
In-Kind Donations	94,398	-	94,398	168,787	-	168,787
Loan Forgiveness	-	-	-	182,090	-	182,090
Grants	41,434	-	41,434	191,331	-	191,331
Special Events	94,312	-	94,312	69,322	-	69,322
Mortgage Discount Amortization	301,861	-	301,861	218,811	-	218,811
Mortgage Discount Revenue-Retired Loans	28,490	-	28,490	-	-	-
Loan Discount Revenue - New Loans	121,210	-	121,210	100,003	-	100,003
Other Income	1,186	-	1,186	6,049	-	6,049
Gain (Loss) on Disposal of Property and Equipment	-	-	-	(153,196)	-	(153,196)
Gain (Loss) on Disposal of Other Assets	-	-	-	(29,720)	-	(29,720)
Released from Restrictions	164,143	(164,143)	-	88,945	(88,945)	-
Total Revenues and Support	1,250,476	18,367	1,268,843	1,683,496	(43,709)	1,639,787
EXPENSES						
Program Services:						
Affordable Housing Costs	1,014,880	-	1,014,880	1,429,791	-	1,429,791
The ReStore	-	-	-	104,333	-	104,333
Total Program Services	1,014,880	-	1,014,880	1,534,124	-	1,534,124
Supporting Services:						
Management and General	131,937	-	131,937	120,189	-	120,189
Fundraising	157,617	-	157,617	149,449	-	149,449
Total Supporting Services	289,554	-	289,554	269,638	-	269,638
Total Expenses	1,304,434	-	1,304,434	1,803,762	-	1,803,762
TOTAL CHANGE IN NET ASSETS	(53,958)	18,367	(35,591)	(120,266)	(43,709)	(163,975)
Net Assets - Beginning of Year	2,080,110	72,851	2,152,961	2,200,376	116,560	2,316,936
NET ASSETS - END OF YEAR	<u>\$ 2,026,152</u>	<u>\$ 91,218</u>	<u>\$ 2,117,370</u>	<u>\$ 2,080,110</u>	<u>\$ 72,851</u>	<u>\$ 2,152,961</u>

See accompanying Notes to Financial Statements.

**CENTRAL MINNESOTA HABITAT FOR HUMANITY
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2019**

	2019			
	Program Services	Supporting Services		Total Expenses
	Affordable Housing Costs	Management and General	Fundraising	
Community Awareness	\$ 24,791	\$ -	\$ 13,182	\$ 37,973
Computer and Internet	13,690	3,423	5,704	22,817
Construction Costs	9,188	-	-	9,188
Cost of Homes Sold	372,673	-	-	372,673
Depreciation	700	175	291	1,166
Dues and Subscriptions	1,134	283	473	1,890
Fees and Licenses	34,123	8,531	14,218	56,872
Insurance	13,633	3,408	5,680	22,721
Interest	25,707	6,427	10,711	42,845
Miscellaneous	3,075	768	1,280	5,123
Mortgage Discount Expense - New Mortgages Issued	155,010	-	-	155,010
Payroll	239,697	78,400	45,537	363,634
Payroll Taxes	20,417	6,678	3,879	30,974
Postage and Freight	1,759	439	733	2,931
Printing and Publications	14,851	3,712	6,188	24,751
Professional Fees	35,068	8,767	14,612	58,447
Rent	27,369	6,842	11,404	45,615
Retirement	4,742	1,551	901	7,194
Special Events	-	-	18,603	18,603
Supplies	1,210	303	504	2,017
Telephone	3,833	958	1,597	6,388
Tithe to Habitat For Humanity International, Inc.	7,125	-	-	7,125
Training and Conferences	1,559	390	650	2,599
Travel	3,526	882	1,470	5,878
	<u>\$ 1,014,880</u>	<u>\$ 131,937</u>	<u>\$ 157,617</u>	<u>\$ 1,304,434</u>
Total Functional Expenses	<u>\$ 1,014,880</u>	<u>\$ 131,937</u>	<u>\$ 157,617</u>	<u>\$ 1,304,434</u>

See accompanying Notes to Financial Statements.

**CENTRAL MINNESOTA HABITAT FOR HUMANITY
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2018**

	2018					
	Program Services			Supporting Services		Total Expenses
	Affordable Housing Costs	The ReStore	Program Services Total	Management and General	Fundraising	
Community Awareness	\$ 48,866	\$ 6,005	\$ 54,871	\$ -	\$ 19,277	\$ 74,148
Computer and Internet	14,012	996	15,008	3,503	5,838	24,349
Construction Costs	7,890	20,483	28,373	168	280	28,821
Cost of Homes Sold	709,028	-	709,028	-	-	709,028
Depreciation	700	5,732	6,432	175	291	6,898
Dues and Subscriptions	1,570	45	1,615	392	654	2,661
Fees and Licenses	32,387	2,108	34,495	8,097	13,496	56,088
Insurance	17,968	2,863	20,831	4,492	7,487	32,810
Interest	43,098	6,790	49,888	-	-	49,888
Miscellaneous	4,694	632	5,326	754	1,257	7,337
Mortgage Discount Expense - New Mortgages Issued	225,894	-	225,894	-	-	225,894
Payroll	213,103	23,048	236,151	74,417	50,739	361,307
Payroll Taxes	18,459	2,724	21,183	6,446	4,395	32,024
Postage and Shipping	1,822	-	1,822	456	760	3,038
Printing and Publications	12,449	-	12,449	3,112	5,187	20,748
Professional Fees	34,386	39	34,425	8,597	14,329	57,351
Rent	21,298	19,085	40,383	5,324	8,874	54,581
Retirement	4,278	395	4,673	1,494	1,019	7,186
Special Events	-	-	-	-	10,961	10,961
Supplies	1,641	68	1,709	410	684	2,803
Telephone	4,252	1,569	5,821	1,063	1,772	8,656
Tithe to Habitat For Humanity International, Inc.	6,841	-	6,841	-	-	6,841
Training and Conferences	1,017	-	1,017	254	424	1,695
Travel	4,138	62	4,200	1,035	1,725	6,960
Utilities	-	11,689	11,689	-	-	11,689
Total Functional Expenses	\$ 1,429,791	\$ 104,333	\$ 1,534,124	\$ 120,189	\$ 149,449	\$ 1,803,762

See accompanying Notes to Financial Statements.

**CENTRAL MINNESOTA HABITAT FOR HUMANITY
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2019 AND 2018**

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Contributors and Grants	\$ 369,579	\$ 695,449
Cash Received from Sales and Special Events	630,347	475,285
Interest Paid	(42,845)	(49,888)
Cash Paid to Employees and Suppliers	(1,268,474)	(1,153,385)
Net Cash Used by Operating Activities	(311,393)	(32,539)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sale of Real Estate and Other Assets	-	49,771
Proceeds from Sale of Property and Equipment	-	8,292
Net Cash Provided (Used) by Investing Activities	-	58,063
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on Short-Term Debt	(5,390)	(12,830)
Proceeds from Long-Term Debt	417,684	231,022
Payments on Long-Term Debt	(219,143)	(200,222)
Net Cash Provided by Financing Activities	193,151	17,970
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(118,242)	43,494
Cash and Cash Equivalents - Beginning of Year	167,200	123,706
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 48,958	\$ 167,200

See accompanying Notes to Financial Statements.

**CENTRAL MINNESOTA HABITAT FOR HUMANITY
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED JUNE 30, 2019 AND 2018**

	2019	2018
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH USED BY OPERATING ACTIVITIES		
Change in Net Assets	\$ (35,591)	\$ (163,975)
Adjustments to Reconcile Change in Net Assets to Net Cash Used by Operating Activities:		
Depreciation	1,166	6,898
Loan Forgiveness	-	(182,090)
Mortgages Issued to Homeowners	(297,128)	(416,194)
Discount on Mortgages Receivable Originated	155,010	225,894
Accretion of Discounts on Mortgages Receivable	(301,861)	(218,811)
Discount on Long-Term Debt Originated	(121,210)	(100,003)
Amortization of Discounts on Long-Term Debt	31,118	29,152
Loss on Sale of Real Estate and Other Assets	-	29,720
Loss on Sale of Property and Equipment	-	153,196
Effect of Changes in Operating Assets and Liabilities:		
Accounts Receivable	40	10,508
Pledges Receivable	35,268	43,709
Inventory	1,489	4,972
Construction in Progress	(420,246)	168,458
Homeowner Escrows - Assets	4,013	47,524
Mortgages Receivable	507,545	338,224
Prepaid Expenses	(7,546)	6,520
Real Estate Available for Construction	685,752	24,944
Real Estate Available for Sale	(547,686)	19,765
Accounts Payable	(9,021)	2,187
Accrued Payroll Liabilities	11,508	(15,140)
Homeowner Escrows - Liabilities	(4,013)	(47,997)
Net Cash Used by Operating Activities	\$ (311,393)	\$ (32,539)
 SUPPLEMENTAL NONCASH DISCLOSURES		
Disposal of Contract for Deed Property	\$ -	\$ 794,564

See accompanying Notes to Financial Statements.

**CENTRAL MINNESOTA HABITAT FOR HUMANITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Central Minnesota Habitat for Humanity (the Organization) is a 501 (c)(3) charitable organization and was incorporated in 1988 under the laws of the state of Minnesota and governed by a Board of Directors. The Organization became affiliated with Habitat for Humanity International in 1989. The Organization works with selected families and communities to build or renovate homes for qualifying families in need. The Organization provides the qualified families with a mortgage on their home.

The Organization closed its ReStore, a nonprofit home improvement store/donation center that sold new and gently used building materials, furniture, and appliances in September 2017.

Financial Statement Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Net assets and revenues, gains, and losses are classified based on donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Without Donor Restrictions – Resources over which the board of directors (board) has discretionary control. Designated amounts represent those revenues which the board has set aside for a particular purpose. \$-0- and \$99,653 was designated for the years ended June 30, 2019 and 2018, respectively, related to various building projects.

With Donor Restrictions – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time. When a restriction expires, 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.

Those resources subject to a donor-imposed restriction that they be maintained permanently by the Organization. Generally, the donors of these resources permit the Organization to use all or part of the income earned on any related investments for general or specific purposes. The Organization has no permanently restricted net assets.

Method of Accounting

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Financial Policy of the Habitat for Humanity International Affiliate Operations Manual.

Use of 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. Actual results could differ from estimates.

CENTRAL MINNESOTA HABITAT FOR HUMANITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

The Organization considers all liquid investments with a maturity of three months or less to be cash equivalents. Cash and cash equivalents consist of cash held in checking, savings, and money market accounts.

The Organization maintains its cash balances at local financial institutions. Cash accounts are insured by the Federal Deposit Insurance Corporation (FDIC) for up to \$250,000. At times the balance may exceed federally insured limits. The Organization has not experienced any losses in such accounts and does not believe it is exposed to any significant credit risk on its cash accounts.

Inventory

Inventory includes items to be use for construction, and are valued at cost for purchased items or fair market value for donated items which is determined at the time of donation.

Property and Equipment

Property and equipment additions over \$2,500 are recorded at cost except those involving donations. Donated items are recorded at their estimated fair market value at the time of donation. Maintenance and repairs are charged to expense. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range from 3 to 39 years. Depreciation expense for the years ended June 30, 2019 and 2018 was \$1,166 and \$6,898, respectively.

Impairment or Disposal of Long-Lived Assets

The Organization follows standards for, Accounting for the Impairment or Disposal of Long-Lived Assets. The Organization reviews its investment in real estate for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the real estate to the future net undiscounted cash flow expected to be generated by the rental property including any estimated proceeds from the eventual disposition of the real estate. If the real estate is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the real estate exceeds the fair value of such property. There was no impairment loss recognized in 2019.

Escrow Funds

Escrow funds include amounts set aside by the homeowners to pay for various costs of home ownership including insurance and real estate taxes.

**CENTRAL MINNESOTA HABITAT FOR HUMANITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pledges Receivable

Unconditional promises to give are recognized as assets and revenue in the period in which the pledges are made. Pledges receivable are uncollateralized. The Organization expects to collect all pledges; therefore, no allowance for uncollectible pledges has been recorded.

Mortgages Receivable

Mortgages receivable balances represent the amount charged to the homeowners for Habitat houses built and are to be paid back over an established and mutually agreed period of time. These mortgages are typically paid back on a monthly basis. In certain circumstances, a second lien mortgage is executed by the homeowner, reflecting the difference between the purchase price and the fair market value of the house. This second mortgage, also known as a "silent mortgage", is a legal document executed for protection against homeowners who may sell their house for a profit before the mortgage is paid off and to protect the homeowner by preventing predatory lenders from paying off the first mortgage and saddling the homeowners with an onerous new mortgage.

The Organization's mortgages are noninterest-bearing and have been discounted to present value based upon prevailing market rates for low income housing at the inception of the mortgages. Habitat For Humanity International, Inc. (HFHI) develops a discount rate once a year on June 30. The difference between the face amount of the mortgage and its present value is accounted for as a discount that is recorded on the statements of financial position as a contra account to Mortgages Receivable and amortized over the life of the mortgage using the straight-line method. The effect of discounting on the financial statements results in Mortgages Receivable being reduced by the discount amount as the expense is increased. HFHI recommends that mortgage discounts be charged as a program services expense to a Mortgage Discount Expense account and each year a ratable amount of the discount be amortized to a Mortgage Discount Amortization revenue account. For practical purposes, delinquent or prepaid mortgage payments are not adjusted in the annual amortization. However, mortgage payoffs or foreclosures do result in the remaining Unamortized Discount balance being closed and recorded to a Mortgage Discount Revenue account.

The Organization's policy for determining when mortgages are past due or delinquent is based on how recently payments have been received. Mortgages are considered past due one day after the due date, and a late fee is charged after 10 days.

Construction in Progress and Land Held for Development

Construction in progress and land held for development are stated at cost and include land under development, property taxes, and direct costs of housing construction.

**CENTRAL MINNESOTA HABITAT FOR HUMANITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Real Estate Available for Sale

The Organization has various real estate available for sale at both June 30, 2019 and 2018. The assets are recorded at the lower of the carrying amount of the asset or the fair value less cost to sell.

Notes Payable

Certain notes payable are at 0% or below market interest rates and are discounted to net present value. These notes are secured by noninterest-bearing mortgages receivable that have also been discounted. The difference between the face amount of the note and its present value is accounted for as a discount and is amortized over the life of the note.

Home Sales

Homes are sold to qualified buyers at fair market value. Noninterest-bearing mortgages are accepted as payment for the homes sold. Home sales are recorded at the discounted value of payments to be received over the lives of the mortgages and revenue is recognized upon closing. Noninterest-bearing mortgages have been discounted at various rates based upon prevailing market rates for low income housing at the inception of the mortgages. See Note 4.

Contributions

All contributions are considered available for general use, unless specifically restricted by the donor. Contributions with donor restrictions are recorded as increases in net assets with donor restrictions as appropriate. When a time restriction is met or a purpose restriction accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as Net Assets Released from Restriction.

Functional Allocation of Expenses

The cost of providing various program and supporting services have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the program and supporting services benefited based on specific identification and time studies. Other expenses, which are not directly identifiable by program or supporting service, are allocated based on the best estimates of management.

Income Taxes

Central Minnesota Habitat for Humanity qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. Therefore, no expense has been recognized for income taxes in the accompanying financial statements. The Organization is not a private foundation and contributions to the Organization qualify as charitable deductions by the contributor.

The Organization follows the income tax standard for uncertain tax positions. The Organization evaluated its tax positions and determined it has no uncertain tax positions as of June 30, 2019 and 2018.

**CENTRAL MINNESOTA HABITAT FOR HUMANITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributed Goods and Services

A substantial number of volunteers have made significant contributions of goods as well as their time to the Organization's program and supporting services. The value of this contributed time is not reflected in the financial statements since it does not require specialized skills. However, certain other contributed services that require specialized skills, were provided by individuals possessing those skills and otherwise needing to be purchased if not provided by donation, are recognized as revenue and expense. Such amounts, which are included in the statements of activities, are as follows:

	2019	2018
Land, Buildings, and Equipment	\$ 63,855	\$ 102,313
Professional Services	10,955	9,682
Materials and Supplies	5,300	4,670
Community Awareness	14,288	52,122
Total Donated Goods and Services	\$ 94,398	\$ 168,787

Reclassifications

Certain amounts for the year ended June 30, 2018 have been reclassified for comparative purposes to conform to the presentation with the year ended June 30, 2019. The reclassifications have no effect on previously reported net assets.

Change in Accounting Principle

On August 18, 2016, FASB issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. We have implemented ASU 2016-14 and have adjusted the presentation in these consolidated financial statements accordingly. The ASU has been applied retrospectively to all periods presented.

Subsequent Events

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through October 24, 2019, the date the financial statements were available to be issued.

CENTRAL MINNESOTA HABITAT FOR HUMANITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 2 LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

	2019	2018
Cash and Cash Equivalents	\$ 48,958	\$ 167,200
Accounts Receivable	130	170
Current Maturities of Pledges Receivable	23,206	32,953
Current Maturities of Mortgages Receivable	82,295	79,698
Total	\$ 154,589	\$ 280,021

The Organization receives significant contributions and promises to give restricted by donors, and consider contributions restricted for programs which are ongoing, major, and central to its annual operations to be available to meet cash needs for general expenditures. The Organization manages its liquidity and reserves following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs, and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged. The Organization has a liquidity practice to maintain current financial assets less current liabilities at a minimum of 30 days operating expenses. The Organization has a practice to target a year-end balance of reserves of undesignated net assets without donor restrictions to meet a minimum of 15 to 30 days of expected expenditures. To achieve these targets, the entity forecasts its future cash flows weekly, monitors its liquidity, and its reserves quarterly. During the years ended June 30, 2019 and 2018, the level of liquidity and reserves was managed within these practice requirements.

NOTE 3 PLEDGES RECEIVABLE

Pledges receivable are due as follows:

	2019	2018
Unconditional Promise to Give Expected to be Collected in:		
Less: Than One Year	\$ 23,206	\$ 32,953
One to Five Years	17,015	45,499
More Than Five Years	-	500
Total Pledges Receivable	40,221	78,952
Less: Discount to Net Present Value	2,638	6,101
Total Unconditional Promises to Give	\$ 37,583	\$ 72,851

**CENTRAL MINNESOTA HABITAT FOR HUMANITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 4 MORTGAGES RECEIVABLE

It is the Organization's policy to sell completed houses to individuals under payment terms that require no interest. U.S. generally accepted accounting principles require that such transactions be discounted to more closely reflect current economic conditions. These mortgages have been discounted to reflect interest at rates ranging from 6.0% to 9.0% as follows:

	<u>2019</u>	<u>2018</u>
Mortgages Receivable	\$ 4,366,340	\$ 4,576,515
Less: Imputed interest	2,101,233	2,247,842
Less: Current Portion of Mortgages Receivable	<u>82,295</u>	<u>79,698</u>
Long-Term Mortgages, Net of		
Current Portion and Discount	<u>\$ 2,182,812</u>	<u>\$ 2,248,975</u>

As of June 30, 2019, mortgages receivable (net of discount) of \$2,162,402, are pledged as collateral for the Organization's notes payable. Management believes mortgages receivable to be fully collectible; therefore, no allowance has been recorded.

All mortgages are secured by liens on the homes sold. In certain circumstances, at the time the homes are sold, the Organization also receives a second mortgage plus a deed restriction from each qualifying new homeowner for an amount equal to the difference between the market value and the first mortgage less closing costs. The second mortgage requires no payment and is collectible only in the event the property is sold or refinanced prior to paying off the first mortgage. The second mortgage is fully forgiven once the first mortgage is paid in full. The deed restriction is reduced on a monthly prorated basis over the first five years. The receivables for the second mortgage and the deed restriction are not shown on the statement of financial position as an asset since they are not expected to be realized.

**CENTRAL MINNESOTA HABITAT FOR HUMANITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 5 LONG-TERM DEBT

As of June 30, 2019 and 2018, long-term debt consists of the following:

<u>Description</u>	<u>2019</u>	<u>2018</u>
Note payable to Habitat for Humanity of Minnesota in monthly installments of \$8,578, maturity dates from September 2020 through December 2044 - interest rate of 0.0%, secured by mortgages receivable.	\$ 1,638,299	\$ 1,404,192
Note payable to Habitat for Humanity of Minnesota in monthly installments of \$449 through October 2034 - interest rate of 2.25%, secured by pledged loans, homeowner notes, and mortgages receivable.	69,836	73,609
Note payable to Habitat for Humanity of Minnesota in monthly installments ranging from \$242-\$497 through January 2040 - interest rate of 3.0%, secured by pledged loans, homeowner notes, and mortgages receivable.	183,841	191,131
Note payable to Habitat for Humanity of Minnesota in monthly installments of \$554 through January 2020 - interest rate of 3.0%, secured by homeowner notes and mortgages receivable.	3,837	10,263
Note payable to Habitat for Humanity of Minnesota, lump sum payment due March 2019 - interest rate of 0.0%, secured by mortgages receivable.	-	18,077
Total Long-Term Debt	<u>1,895,813</u>	<u>1,697,272</u>
Less: Current Portion of Long-Term Debt	86,584	94,769
Less: Imputed Interest	<u>602,177</u>	<u>512,085</u>
Long-Term Debt, Net of Current Portion	<u>\$ 1,207,052</u>	<u>\$ 1,090,418</u>

**CENTRAL MINNESOTA HABITAT FOR HUMANITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 5 LONG-TERM DEBT (CONTINUED)

Future principal payments are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2020	\$ 86,584
2021	83,080
2022	83,407
2023	83,741
2024	79,745
Thereafter	<u>1,479,256</u>
Total	<u><u>\$ 1,895,813</u></u>

NOTE 6 SHORT-TERM DEBT

The Organization has a short-term debt with a bank for \$55,209 and \$60,599 at June 30, 2019 and 2018, respectively. The unpaid balance under the loan is collateralized by land and a mortgage and bears interest at a variable rate equal to the prime rate with a floor of 5.75% per annum. The outstanding balance was due August, 2019. Subsequent to the Organization's year-end but prior to the issuance of the financial statements, the short-term debt was extended to August, 2020.

NOTE 7 NET ASSETS WITH DONOR RESTRICTIONS

The Organization has the following net assets with donor restrictions:

	<u>2019</u>	<u>2018</u>
Purpose Restrictions	\$ 53,636	\$ -
Time Restrictions	<u>37,582</u>	<u>72,851</u>
Total Released Net Assets With Donor Restrictions	<u><u>\$ 91,218</u></u>	<u><u>\$ 72,851</u></u>

Net assets released from restriction were \$164,143 and \$88,945 for the years ended June 30, 2019 and 2018, respectively.

**CENTRAL MINNESOTA HABITAT FOR HUMANITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 8 RELATED PARTY TRANSACTIONS

As summarized in Note 5, the Organization has notes payable due to Habitat for Humanity of Minnesota, Inc., an affiliate, of \$1,895,813 and \$1,697,272 for the years ended June 30, 2019 and 2018, respectively. The Organization also paid annual fees and licenses of \$41,800 and \$22,742 in 2019 and 2018, respectively, to Habitat for Humanity of Minnesota, Inc.

The Organization contributes 10% of its Thrivent grant income to Habitat for Humanity International, Inc. for their international housing programs. Contributions for the years ended June 30, 2019 and 2018 were \$7,125 and \$6,841, respectively. The Organization also pays an annual fee of \$15,000 to Habitat for Humanity International, Inc.

The Organization also had contribution revenue of \$28,592 and \$41,941 from Habitat for Humanity Minnesota, Inc. and Habitat for Humanity International, Inc., respectively. The Organization had grant revenue of \$1,000 and \$58,900 from Habitat for Humanity Minnesota, Inc. and Habitat for Humanity International, Inc., respectively.

NOTE 9 OPERATING LEASE

The Organization leases its office building under an operating lease expiring in January 2018. In 2018, the Organization extended the lease for an additional five years through January 2023. Rent expense was \$39,615 and \$33,996 for the years ended June 30, 2019 and 2018, respectively.

Future minimum lease payments are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2020	\$ 41,820
2021	41,820
2022	41,820
2023	24,395
Total	<u>\$ 149,855</u>

NOTE 10 RETIREMENT PLAN

The Organization has a SIMPLE plan covering all employees who qualify as to age and length of service. The plan is a defined contribution plan, with all contribution amounts (if any) determined by management. Contributions to the plan total \$7,194 and \$7,186 for the years ended June 30, 2019 and 2018, respectively.

NOTE 11 COMMITMENTS

The Organization offers a one-year warranty on homes upon completion of construction at which they are liable for any costs related to items that fall under the warranty.