TWIN CITIES HABITAT FOR HUMANITY, INC.

CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION AND SINGLE AUDIT COMPLIANCE REPORTS

YEARS ENDED JUNE 30, 2023 AND 2022

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INDEPENDENT AUDITORS' REPORT

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

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Twin Cities Habitat for Humanity, Inc. (a nonprofit organization), which comprise the consolidated balance sheets as of June 30, 2023 and 2022, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Twin Cities Habitat for Humanity, Inc. as of June 30, 2023 and 2022, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 Twin Cities Habitat for Humanity, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of a Matter: Change in Accounting Principle

As discussed in Note 1 of the consolidated financial statements, the Organization adopted new accounting guidance for leases. The guidance requires lessees to recognize a right-of-use asset and corresponding liability for all operating and finance leases with lease terms greater than one year. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 and *Government Auditing Standards* 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 there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the consolidated 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 consolidated 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 Twin Cities Habitat for Humanity, Inc.'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 consolidated financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Twin Cities Habitat for Humanity, Inc.'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.

Finance Committee
Twin Cities Habitat for Humanity, Inc.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating balance sheet, consolidating statement of activities, and the accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200*, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the consolidating balance sheet, consolidating statement of activities, and the accompanying schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2023, on our consideration of Twin Cities Habitat for Humanity, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Twin Cities Habitat for Humanity, Inc.'s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Twin Cities Habitat for Humanity, Inc.'s internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
December 5, 2023

TWIN CITIES HABITAT FOR HUMANITY, INC.
CONSOLIDATED BALANCE SHEETS
JUNE 30, 2023 AND 2022

	2023	2022
ASSETS		
Cash and Cash Equivalents	$ 12,061,495	$ 29,941,132
Investments (Note 15)	12,252,379	3,046,147
Accounts Receivable	1,645,136	851,620
Mortgage Servicing Asset, Net (Note 16)	1,960,897	1,573,116
Contributions Receivable, Net (Note 2)	7,331,927	1,556,207
Inventory (Note 3)	27,909,193	14,649,791
Land Held in Trust	1,854,633	1,132,782
Prepaid and Other Assets	1,005,936	964,711
Right-of-Use Asset, Net (Note 9)	1,657,326	-
Leveraged Loan Receivable (Note 5)	3,512,867	3,549,683
Property and Equipment, Net (Note 4)	8,028,504	8,046,322
Mortgages Receivable (Note 6):		
Mortgages Receivable Held, at Face Value	42,272,975	46,360,123
Mortgages Receivable Held for Sale, at Face Value	4,221,799	2,941,937
Less: Unamortized Discount and Allowance	(12,493,009)	(14,375,127)
Mortgages Receivable, Net	34,001,765	34,926,933
Total Assets	$ 113,222,058	$ 100,238,444
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable	$ 1,864,406	$ 465,547
Accrued Expenses	1,691,126	1,300,551
Lease Liability (Note 9)	1,734,293	-
Line of Credit (Note 8)	8,763,598	6,761,350
Unearned Grant Revenue	5,725,544	2,028,874
Long-Term Notes Payable (Note 7):		
Long-Term Notes Payable, at Face Value	23,764,539	26,225,421
Less: Unamortized Discount and Origination Fees	(2,995,090)	(3,550,888)
Long-Term Notes Payable, Net	20,769,449	22,674,533
Total Liabilities	40,548,416	33,230,855
NET ASSETS		
Without Donor Restrictions	63,439,921	62,788,483
With Donor Restrictions (Note 12 and 13)	9,233,721	4,219,106
Total Net Assets	72,673,642	67,007,589
Total Liabilities and Net Assets	$ 113,222,058	$ 100,238,444

See accompanying Notes to Consolidated Financial Statements.

TWIN CITIES HABITAT FOR HUMANITY, INC.
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
OPERATING REVENUE AND SUPPORT			
Operating Revenue:			
Home Sales (Mortgages Received)	$ 9,225,862	$ -	$ 9,225,862
Investment Income	588,758	117,838	706,596
ReStore Revenue (Inclusive of In-Kind Contributions of $2,864,174, Net of Direct Expense of $6,115,321)	309,060	-	309,060
Loan Forgiveness	1,089,533	-	1,089,533
Other	971,426	-	971,426
Total Operating Revenue	12,184,639	117,838	12,302,477
Support:			
Contributions	13,970,233	6,642,671	20,612,904
Public Sector Funds	5,114,297	-	5,114,297
In-Kind (Note 10)	1,457,700	-	1,457,700
Special Events, Cash	736,532	-	736,532
Special Events, Donated Goods and Services	114,961		114,961
Less Costs of Direct Benefits to Donors	(492,143)	-	(492,143)
Total Special Events	359,350	-	359,350
Total Support	20,901,580	6,642,671	27,544,251
Net Assets Released from Restrictions (Note 12)	1,745,894	(1,745,894)	-
Total Operating Revenue and Support	34,832,113	5,014,615	39,846,728
OPERATING EXPENSES			
Program Services	28,974,735	-	28,974,735
Management and General	3,415,246	-	3,415,246
Fundraising	3,168,789	-	3,168,789
Total Operating Expenses	35,558,770	-	35,558,770
OPERATING INCREASE IN NET ASSETS	(726,657)	5,014,615	4,287,958
NONOPERATING ACTIVITIES			
Gain on Fixed Asset Disposal	52,459	-	52,459
Amortization of Discount on Mortgages	1,882,118	-	1,882,118
Amortization of Discount on Long-Term Notes Payable	(556,482)	-	(556,482)
NONOPERATING INCREASE IN NET ASSETS	1,378,095	-	1,378,095
TOTAL INCREASE IN NET ASSETS	651,438	5,014,615	5,666,053
Net Assets - Beginning of Year	62,788,483	4,219,106	67,007,589
NET ASSETS - END OF YEAR	$ 63,439,921	$ 9,233,721	$ 72,673,642

See accompanying Notes to Consolidated Financial Statements.

TWIN CITIES HABITAT FOR HUMANITY, INC.
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
OPERATING REVENUE AND SUPPORT			
Operating Revenue:			
Home Sales (Mortgages Received)	$ 10,079,052	$ -	$ 10,079,052
Investment Income (Loss)	18,900	(208,407)	(189,507)
ReStore Revenue (Inclusive of In-Kind Contributions of $2,550,281, Net of Direct Expense of $5,027,750)	540,798	-	540,798
PPP Loan Forgiveness	1,712,600	-	1,712,600
Other	1,021,453	-	1,021,453
Total Operating Revenue	13,372,803	(208,407)	13,164,396
Support:			
Contributions	23,840,474	837,779	24,678,253
Public Sector Funds	3,389,577	-	3,389,577
In-Kind (Note 10)	721,552	-	721,552
Special Events, Cash	864,109	-	864,109
Special Events, Donated Goods and Services	77,217		77,217
Less Costs of Direct Benefits to Donors	(432,648)	-	(432,648)
Total Special Events	508,678	-	508,678
Total Support	28,460,281	837,779	29,298,060
Net Assets Released from Restrictions (Note 12)	2,926,308	(2,926,308)	-
Total Operating Revenue and Support	44,759,392	(2,296,936)	42,462,456
OPERATING EXPENSES			
Program Services	23,353,325	-	23,353,325
Management and General	2,368,332	-	2,368,332
Fundraising	2,537,028	-	2,537,028
Total Operating Expenses	28,258,685	-	28,258,685
OPERATING INCREASE (DECREASE) IN NET ASSETS	16,500,707	(2,296,936)	14,203,771
NONOPERATING ACTIVITIES			
Gain on Fixed Asset Disposal	453,737	-	453,737
Amortization of Discount on Mortgages	2,059,131	-	2,059,131
Amortization of Discount on Long-Term Notes Payable	(553,862)	-	(553,862)
NONOPERATING INCREASE IN NET ASSETS	1,959,006	-	1,959,006
TOTAL INCREASE (DECREASE) IN NET ASSETS	18,459,713	(2,296,936)	16,162,777
Net Assets - Beginning of Year	44,328,770	6,516,042	50,844,812
NET ASSETS - END OF YEAR	$ 62,788,483	$ 4,219,106	$ 67,007,589

See accompanying Notes to Consolidated Financial Statements.

TWIN CITIES HABITAT FOR HUMANITY, INC.
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2023

	Program Services						Support Services			
	Homeownership					Total			Total	Total All
	Creating	Financing	Preserving	ReStores	Community Engagement	Program Services	Management and General	Fundraising	Support Services	All Services
Cost of Homes - Sold	$ 13,233,544	$ -	$ 168,875	$ -	$ -	$ 13,402,419	$ -	$ -	$ -	$ 13,402,419
Cost of Homes - In-Kind	859,146	-	12,173	14,980	46	886,345	-	11	11	886,356
Salaries, Taxes, and Benefits	5,817,021	997,283	705,282	1,474,210	586,313	9,580,109	2,450,150	2,284,164	4,734,314	14,314,423
Professional Fees	301,687	32,948	84,344	5,252	54,854	479,085	359,368	285,667	645,035	1,124,120
Printing and Media	5,394	250	787	118,394	1,616	126,441	217,012	294,313	511,325	637,766
Postage	4,769	957	539	4,589	415	11,269	21,289	26,189	47,478	58,747
Insurance	168,083	44,856	21,126	-	16,020	250,085	40,062	56,497	96,559	346,644
Telephone	53,849	3,262	4,152	7,063	1,901	70,227	4,286	5,717	10,003	80,230
Occupancy	300,534	11,933	36,665	794,680	13,356	1,157,168	31,107	74,079	105,186	1,262,354
Vehicle Fleet	69,002	2,382	6,657	51,473	2,376	131,890	5,114	7,403	12,517	144,407
General Supplies, Tools, and Site Supplies	188,675	4,540	6,830	15,411	2,618	218,074	42,681	159,327	202,008	420,082
Equipment Lease and Maintenance	12,388	1,182	1,584	4,761	841	20,756	2,300	14,103	16,403	37,159
Warranty	40,132	-	-	-	-	40,132	-	-	-	40,132
Meals and Travel	50,464	3,619	3,415	3,732	26,898	88,128	31,879	244,959	276,838	364,966
Staff Development	23,645	4,056	2,248	682	7,157	37,788	93,854	22,513	116,367	154,155
Resale Merchandise	-	-	-	3,439,720	-	3,439,720	-	-	-	3,439,720
Habitat International Tithe and Fees	280,000	-	-	-	-	280,000	-	-	-	280,000
Property Taxes	24,424	3,082	4,878	157	2,608	35,149	5,390	7,828	13,218	48,367
Loan Servicing and Bank Fees	645	163,410	99	86,652	198	251,004	34,330	63,228	97,558	348,562
Miscellaneous	143,887	49,235	17,592	-	13,545	224,259	39,172	47,854	87,026	311,285
Affordability Gap and Closing Cost Subsidies	1,790,610	651,727	895,305	-	-	3,337,642	-	-	-	3,337,642
Interest Expense and Discount Amortization	-	1,210,801	-	-	-	1,210,801	-	-	-	1,210,801
Depreciation	202,688	27,173	25,515	93,565	19,106	368,047	37,252	67,080	104,332	472,379
Total	$ 23,570,587	$ 3,212,696	$ 1,998,066	$ 6,115,321	$ 749,868	$ 35,646,538	$ 3,415,246	$ 3,660,932	$ 7,076,178	$ 42,722,716
Operating	$ 23,570,587	$ 2,656,214	$ 1,998,066	$ -	$ 749,868	$ 28,974,735	$ 3,415,246	$ 3,168,789	$ 6,584,035	$ 35,558,770
Nonoperating - Amortization of Discount on Long-Term Notes Payable	-	556,482	-	-	-	556,482	-	-	-	556,482
Expenses Netted Against Revenues	-	-	-	6,115,321	-	6,115,321	-	492,143	492,143	6,607,464
Total	$ 23,570,587	$ 3,212,696	$ 1,998,066	$ 6,115,321	$ 749,868	$ 35,646,538	$ 3,415,246	$ 3,660,932	$ 7,076,178	$ 42,722,716
Percentage	55.17 %	7.52 %	4.68 %	14.31 %	1.76 %	83.44 %	7.99 %	8.57 %	16.56 %	100.00 %

See accompanying Notes to Consolidated Financial Statements.

TWIN CITIES HABITAT FOR HUMANITY, INC.
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2022

	Program Services						Support Services			
	Homeownership					Total			Total	Total All
	Creating	Financing	Preserving	ReStores	Community Engagement	Program Services	Management and General	Fundraising	Support Services	All Services
Cost of Homes - Sold	$ 12,636,106	$ -	$ 224,942	$ -	$ -	$ 12,861,048	$ -	$ -	$ -	$ 12,861,048
Cost of Homes - In-Kind	359,586	-	12,440	47,527	-	419,553	-	-	-	419,553
Salaries, Taxes, and Benefits	4,659,047	693,250	900,683	1,041,282	502,969	7,797,231	1,678,994	1,712,324	3,391,318	11,188,549
Professional Fees	243,831	72,727	49,225	6,228	64,632	436,643	302,736	447,530	750,266	1,186,909
Printing and Media	2,657	213	2,836	101,678	987	108,371	153,641	219,409	373,050	481,421
Postage	4,205	559	812	4,113	364	10,053	23,101	28,904	52,005	62,058
Insurance	126,778	33,447	25,281	-	11,405	196,911	28,346	37,545	65,891	262,802
Telephone	48,575	1,688	6,605	6,096	1,722	64,686	4,090	5,322	9,412	74,098
Occupancy	256,488	6,431	51,070	694,915	8,523	1,017,427	23,363	51,544	74,907	1,092,334
Vehicle Fleet	66,974	2,573	12,065	42,108	2,462	126,182	6,196	8,559	14,755	140,937
General Supplies, Tools, and Site Supplies	125,940	2,661	14,143	25,892	2,697	171,333	12,143	143,420	155,563	326,896
Equipment Lease and Maintenance	10,231	938	2,133	(2,081)	853	12,074	2,100	6,766	8,866	20,940
Warranty	7,172	-	-	-	-	7,172	-	-	-	7,172
Meals and Travel	28,857	1,751	3,187	2,095	3,319	39,209	17,227	167,197	184,424	223,633
Staff Development	38,049	5,404	6,671	2,335	8,945	61,404	46,156	20,003	66,159	127,563
Resale Merchandise	1,658	-	-	2,853,502	-	2,855,160	-	-	-	2,855,160
Habitat International Tithe and Fees	274,190	-	-	-	-	274,190	-	-	-	274,190
Property Taxes	2,359	180	1,984	90	267	4,880	392	643	1,035	5,915
Loan Servicing and Bank Fees	582	142,233	89	68,178	179	211,261	34,545	59,300	93,845	305,106
Miscellaneous	8,403	116,584	1,357	95	1,932	128,371	469	1,324	1,793	130,164
Affordability Gap and Closing Cost Subsidies	-	657,518	-	-	-	657,518	-	-	-	657,518
Interest Expense and Discount Amortization	-	1,054,263	-	-	-	1,054,263	-	-	-	1,054,263
Depreciation	206,144	20,704	41,236	133,697	18,216	419,997	34,833	59,886	94,719	514,716
Total	$ 19,107,832	$ 2,813,124	$ 1,356,759	$ 5,027,750	$ 629,472	$ 28,934,937	$ 2,368,332	$ 2,969,676	$ 5,338,008	$ 34,272,945
Operating	$ 19,107,832	$ 2,259,262	$ 1,356,759	$ -	$ 629,472	$ 23,353,325	$ 2,368,332	$ 2,537,028	$ 4,905,360	$ 28,258,685
Nonoperating - Amortization of Discount on Long-Term Notes Payable	-	553,862	-	-	-	553,862	-	-	-	553,862
Expenses Netted Against Revenues	-	-	-	5,027,750	-	5,027,750	-	432,648	432,648	5,460,398
Total	$ 19,107,832	$ 2,813,124	$ 1,356,759	$ 5,027,750	$ 629,472	$ 28,934,937	$ 2,368,332	$ 2,969,676	$ 5,338,008	$ 34,272,945
Percentage	55.75 %	8.21 %	3.96 %	14.67 %	1.84 %	84.43 %	6.91 %	8.66 %	15.57 %	100.00 %

See accompanying Notes to Consolidated Financial Statements.

TWIN CITIES HABITAT FOR HUMANITY, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2023 AND 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in Net Assets	$ 5,666,053	$ 16,162,777
Adjustments to Reconcile Increase in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Depreciation	472,379	514,716
In-Kind Contributions of Goods	(1,435,105)	(670,546)
Amortization of Discounts on Mortgages Receivable	(1,882,118)	(2,059,131)
Noncash Loan Forgiveness	(1,089,533)	(1,712,600)
Recognition of Earned Advanced Grant Funds	(354,095)	(876,132)
Origination of Mortgages Held for Sale	(22,850,390)	(20,124,361)
Proceeds from Sale of Mortgages Held for Sale	21,538,451	19,468,483
Amortization of Discount on Long-Term Notes Payable	556,482	553,862
Gain on Sale for Mortgage Servicing Rights	(387,781)	(485,519)
Other	(116,611)	(161,028)
Changes in Operating Assets and Liabilities:		
Accounts Receivable	(793,516)	(120,573)
Contributions Receivable, Net	(5,775,720)	1,703,221
Land Trust	-	-
Leverage Loan Receivable	36,816	36,817
Inventory	(12,546,148)	(1,578,518)
Prepaid and Other Assets	(41,225)	25,917
Accounts Payable	1,398,859	107,665
Accrued Expenses	410,575	80,078
Lease Liability	76,967	-
Unearned Grant Revenue	4,050,765	813,137
Net Cash Provided (Used) by Operating Activities	(13,064,895)	11,678,265
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments Received on Mortgages Held	4,087,148	4,477,454
Purchase of Investments	(9,108,844)	(2,424,259)
Proceeds from Sale of Investments	-	686,270
Proceeds from the Sale of Property and Equipment	62,156	517,226
Purchases of Property and Equipment	(486,101)	(193,918)
Net Cash Provided (Used) by Investing Activities	(5,445,641)	3,062,773
CASH FLOWS FROM FINANCING ACTIVITIES		
Net Proceeds (Payments) on Line of Credit	2,011,784	2,706,291
Payments on Long-Term Notes Payable	(1,480,885)	(1,598,330)
Borrowings on Long-Term Notes Payable	100,000	-
Net Cash Provided by Financing Activities	630,899	1,107,961
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(17,879,637)	15,848,999
Cash and Cash Equivalents - Beginning of Year	29,941,132	14,092,133
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 12,061,495	$ 29,941,132
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest Paid	$ 538,743	$ 452,492
NONCASH ITEMS		
Contributions and Pledge Payments of Investment Securities	$ 236,352	$ 454,639

See accompanying Notes to Consolidated Financial Statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organizational Purpose

Twin Cities Habitat for Humanity, Inc. is a Minnesota nonprofit corporation, incorporated in 1985. The mission of Twin Cities Habitat for Humanity (TCHFH or the Organization) is to bring people together to create, preserve, and promote affordable homeownership and advance racial equity in housing. TCHFH fulfills its mission through five major program initiatives which address homeownership needs in the community while engaging the community in the issues of affordable homeownership.

Creating affordable homeownership is the primary program. TCHFH builds or renovates homes utilizing volunteer labor, donated materials, and contributed funds. The homes are then sold to pre-qualified, low-and moderate-income households. Homebuyers are selected based on need, ability to repay the TCHFH mortgage, and willingness to partner. The Organization also tithes a portion of its general donations to Habitat for Humanity International to improve the housing conditions for people living in poverty around the world.

Long-term mortgage financing is a key component which makes Habitat homes affordable. Homes are sold to local low-income buyers with affordable mortgages provided by TCHFH Lending Inc. based on households paying no more than 30% of their monthly income for housing costs. The mortgages are profit-free.

Preserving homeownership includes three activities which allow existing homeowners in the community to remain in their home. “A Brush with Kindness” and “Age Well at Home” programs offer painting and critical remodeling services throughout the metropolitan area, serving low-income, elderly, or disabled homeowners seeking to stay in an affordable home. Volunteers, staff, and subcontractors provide these services. In circumstances where repairs are more extensive, homeowners take out a loan through Federal Home Loan Bank sources. The Mortgage Foreclosure Prevention Program is available for homeowners in need of foreclosure prevention counseling or intervention.

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

Community engagement is a program initiative which runs throughout the activities of the Organization. These initiatives include soliciting and coordinating volunteers, educating the public about affordable housing, advocating for housing issues and community outreach.

Basis of Consolidation

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

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Consolidated Financial Statement Presentation

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

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

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

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

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

Cash and Cash Equivalents

The Organization considers all highly liquid investments purchased with an initial maturity of three months or less to be cash and cash equivalents, unless held for reinvestment as part of the investment portfolio or otherwise restricted or designated.

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

Investments

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

Fair Value Measurements

In accordance with fair value measurements, the Organization categorizes its assets and liabilities measured at fair value into a three-level hierarchy based on the priority of the inputs to the valuation technique used to determine fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used in the determination of the fair value measurement fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (Continued)

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

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

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

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

Accounts Receivable

Accounts receivable are recorded at net realizable value. The Organization accounts for doubtful accounts receivable by the reserve method, based on management's best estimate and past history. All accounts receivable are due on demand. Receivables are assessed individually for collectability based on the surrounding facts and circumstances and management's past history. When all collection efforts have been exhausted, the accounts are written off against the related allowance. As of June 30, 2023 and 2022, no allowance for doubtful accounts was necessary for accounts receivable.

Mortgages Receivable

Mortgage notes receivable entered into at rates substantially below market rates are discounted to net present value. The discounts are charged directly to operations at the inception of the mortgage and amortized over the life of the contract. Discount amortization is reported as amortization of discount on mortgages on the consolidated statements of activities in the period amortized.

Mortgage receivables held with the intention of selling the mortgages are reported as mortgages held for sale on the consolidated balance sheets, while those held without the intention of being sold are reported as mortgages receivable held.

Loans Held for Sale

Mortgages held for sale are mortgages originated with the intent to be sold and are carried at the lower of book or estimated fair value. The Organization has an agreement with one financial institution to purchase the loans at cost. No gain or loss on the loan corpus is recognized on the sale, however a gain may be recognized on the sale related to the servicing rights.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Valuation of Servicing Rights

The Organization recognizes assets for the rights to service loans for others that result from the sale of loans it originates (asset transfers) at fair value in accordance with Accounting Standards Codification (ASC) 860. Servicing rights from asset transfers are initially capitalized and recorded at fair value. The Organization determines the fair value of servicing rights using a valuation model that calculates the present value of estimated future net servicing income. The model incorporates assumptions that market participants use in estimating future net servicing income, including estimates of prepayment speeds (including housing price volatility), discount rate, default rates, cost to service (including delinquency and foreclosure costs) and contractual servicing fee income.

Servicing rights are evaluated for impairment based upon the fair value of the rights as compared to carrying amount. The fair values of servicing rights are subject to significant fluctuations as a result of changes in estimated and actual prepayment speeds and default rates and losses. Impairment is determined by assessing risk characteristics, such as interest rate and loan types. The Organization did not recognize any impairment on servicing rights for the years ended June 30, 2023 and 2022.

Allowance for Credit Losses

The Organization’s allowance for credit losses is that amount considered adequate to absorb probable losses based on management’s evaluations of the size and current risk characteristics of the mortgage loan portfolios. Such evaluations consider historical and current portfolio performance information and experience with clients. Specific allowances for credit losses are established for large-impaired notes on an individual basis. A note is considered impaired when, based on current information and events, it is probable that the Organization will be unable to collect the scheduled payments when due according to the contractual terms of the promissory note. The specific allowances established for these loans are based on a thorough analysis of the most probable source of repayment, including the estimated fair value of the underlying collateral.

At June 30, 2023 and 2022, the Organization has individually evaluated mortgage notes for impairment. Management believes all mortgages receivable are realizable through either collection or foreclosure proceeds if not collected, with the exception of one program. Due to current market conditions and credit quality, one mortgage program recorded an allowance for doubtful accounts of $69,071 as of June 30, 2023 and 2022.

At June 30, 2023 and 2022 , the Organization has individually evaluated leveraged loans receivable for impairment and no allowance is deemed necessary.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions Receivable

Contributions receivable are recorded at net realizable value. Conditional pledges are not included as support until such time as the conditions are substantially met. Donor-advised funds (DAF) are controlled by the fund, not the individual donor, so individual pledges from a DAF are not recorded until they are received or pledged from the fund. Receivables are assessed individually for collectability based on the surrounding facts and circumstances and management's past history. When all collection efforts have been exhausted, the accounts are written off against the related allowance. As of June 30, 2023 and 2022, the allowance for doubtful accounts was $302,540 and $36,078, respectively.

Inventory

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

Land Held in Trust

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

Property and Equipment

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

In-Kind Contributions

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

Home Sales

Nearly all sales to homeowners have been financed by TCHFH or its subsidiary TCHFH Lending, Inc. and are recorded when title is transferred. The amount of the first mortgage for homes TCHFH developed is classified as operating revenues and the related discount is recorded at the same time as nonoperating activity. Noninterest-bearing mortgages have been discounted based upon prevailing market rates for low-income housing at the inception of the mortgages. Utilizing the effective interest method, this discount will be recognized as income over the term of the mortgage. Interest-bearing mortgages are evaluated at inception for potential discount. Interest-bearing mortgages have been deemed to be at a market rate thus far and no discount has been recognized on these mortgages.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions

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

Public Sector Funds

A portion of the Organization's revenue is derived from cost reimbursable federal, state and local government contracts and grants, which are conditioned upon certain performance requirements and/ or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Organization has incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as unearned grant revenue in the consolidated statement of financial position. The Organization has been awarded cost reimbursable grants of $20,434,090 that have not been recognized as revenue at June 30, 2023 because qualifying expenditures have not yet been incurred, with an advance payment of $5,947,295 recognized in the consolidated statement of financial position as unearned grant revenue. The Organization has been awarded cost reimbursable grants of $11,936,614 that have not been recognized as revenue at June 30, 2022 because qualifying expenditures have not yet been incurred, with an advance payment of $2,028,874 recognized in the consolidated statement of financial position as unearned grant revenue.

Income Taxes

The Organization and TCHFH Lending, Inc. have exempt status relative to federal and Minnesota corporate income taxes under Internal Revenue Code Section 501(c)(3) and applicable state statutes. The Organization is not a private foundation and contributions to the Organization qualify as charitable tax deductions by the contributor. TCHFH Lending, Inc. is a supporting organization of the Organization.

The Organization follows the accounting standards for contingencies in evaluating uncertain tax positions. This guidance prescribes recognition threshold principles for the consolidated financial statement recognition of tax positions taken or expected to be taken on a tax return that are not certain to be realized. No liability has been recognized by the Organization as a result of the implementation of this standard. The Organization's returns are subject to review and examination by federal and state authorities.

Functional Allocation of Expense

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Paycheck Protection Program

On February 8, 2021, the Organization received a second loan from Sunrise Banks N.A. in the amount of $1,712,600 to fund payroll, rent, utilities, and interest on mortgages and existing debt through the PPP Loan. In October 2021, the SBA formally approved forgiveness. The Organization recognized $1,712,600 of revenue related to this agreement during the year ended June 30, 2022, which represents the portion of the PPP loan funds for which the performance barriers have been met. The SBA may review funding eligibility and usage of funds for compliance with program requirements based on dollar thresholds and other factors. The amount of liability, if any, from potential noncompliance cannot be determined with certainty; however, management is of the opinion that any review will not have a material adverse impact on the Organization’s financial position.

Unearned Grant Revenue

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

Leases

The Organization determines if an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use (ROU) assets, other current liabilities, and operating lease liabilities on the consolidated balance sheets.

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. ROU assets and liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. As most leases do not provide an implicit rate, the Organization uses a risk-free rate based on the information available at commencement date in determining the present value of lease payments. The operating lease ROU asset also includes any lease payments made and excludes lease incentives.

The lease terms may include options to extend or terminate the lease when it is reasonably certain that the Organization will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term. The Organization has elected to recognize payments for short-term leases with a lease term of 12 months or less as expense as incurred and these leases are not included as lease liabilities or right of use assets on the consolidated balance sheet.

The individual lease contracts do not provide information about the discount rate implicit in the lease. Therefore, the Organization has elected to use a risk-free discount rate determined using a period comparable with that of the lease term for computing the present value of lease liabilities.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Estimates

Management uses estimates and assumptions in preparing consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP). Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

Adoption of New Accounting Standards

In February 2016, the Financial Accounting Standards Board issued Accounting Standards Update 2016-02, *Leases (ASC 842).* The new standard increases transparency and comparability among organizations by requiring the recognition of right-of-use (ROU) assets and lease liabilities on the statements of financial position. Most prominent of the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. The Organization adopted the requirements of the guidance effective July 1, 2022, and has elected to apply the provisions of this standard to the beginning of the period of adoption. The Organization has elected to adopt the package of practical expedients available in the year of adoption. The Organization has elected to adopt the available practical expedient to use hindsight in determining the lease term and in assessing impairment of the ROU assets.

Subsequent Events

In preparing these consolidated financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through December 5, 2023, the date the consolidated financial statements were available to be issued.

NOTE 2 CONTRIBUTIONS RECEIVABLE

The present value of the contributions receivable were summarized as follows at June 30:

	2023	2022
Gross Contributions Receivable	$ 7,810,160	$ 1,667,570
Less: Allowance for Doubtful Accounts	(302,540)	(36,078)
Less: Present Value Discount - 3%	(175,693)	(75,285)
Net Contributions Receivable	$ 7,331,927	$ 1,556,207
Amounts Due in:		
Less Than One Year	$ 3,404,599	$ 867,571
One to Five Years	4,405,561	799,999
Total	$ 7,810,160	$ 1,667,570

At June 30, 2023 and 2022, two contributors comprised 50% and three contributors comprised 69%, respectively, of the contributions receivable.

NOTE 3 INVENTORY

Inventory consists of the following at June 30:

	2023	2022
Home in Progress	$ 11,597,288	$ 4,699,460
Land and Acquired Property	15,425,730	9,128,731
Building Material	512,710	512,954
Held for Resale	373,465	308,646
Total Inventory	$ 27,909,193	$ 14,649,791

NOTE 4 PROPERTY AND EQUIPMENT

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

	2023		
	Cost	Accumulated Depreciation	Life
Land	$ 1,570,872	$ -	N/A
Buildings and Improvements	8,455,516	2,717,863	5 to 39 Years
Furniture and Equipment	1,653,441	1,277,426	5 to 7 Years
Vehicles	819,551	475,587	3 to 5 Years
Total	$ 12,499,380	$ 4,470,876	
Property and Equipment, Net		$ 8,028,504	

	2022		
	Cost	Accumulated Depreciation	Life
Land	$ 1,570,872	$ -	N/A
Buildings and Improvements	8,445,461	2,425,608	5 to 39 Years
Furniture and Equipment	1,473,207	1,175,887	5 to 7 Years
Vehicles	729,423	571,146	3 to 5 Years
Total	$ 12,218,963	$ 4,172,641	
Property and Equipment, Net		$ 8,046,322	

NOTE 5 LEVERAGED LOAN RECEIVABLE

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

Description	2023	2022
Investment in Leveraged Lender, 0.694151%, Due in interest-only installments through May 5, 2025, Commencing August 23, 2025 due in semi-annual installments of $38,120 with principal due on August 22, 2048.	$ 3,512,867	$ 3,549,683

The loan is secured by substantially all assets of the borrower. As of June 30, 2023 and 2022, the Organization has not reserved any allowance for losses on the leveraged loan receivable, as this loan is being collected consistent with its payment terms.

NOTE 6 MORTGAGES RECEIVABLE

An Organization-developed home is considered sold when a formal closing transaction has been finalized. Homes are priced at fair market value based on an appraisal of the property. Contract periods span 20 to 30 years, and monthly payments are no greater than 30% of the family's income at the time of sale. At June 30, 2023 and 2022, the Organization had 696 and 717 mortgages outstanding, respectively.

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

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

The outstanding mortgages receivable held for sale portfolio is $4,221,799 and $2,941,937 at June 30, 2023 and 2022, respectively. This portfolio has no delinquent mortgages and is considered to be fully collectible within the coming year, so the Organization has not recorded an allowance or discount on the mortgages receivable held for sale portfolio as of June 30, 2023 and 2022.

NOTE 6 MORTGAGES RECEIVABLE (CONTINUED)

For the held portfolio, the mortgage loans receivable are interest-bearing mortgages. At June 30, the composition of mortgages receivable held is as follows:

	2023	2022
Mortgages Receivable Held	$ 42,272,975	$ 46,360,123
Less: Unamortized Discount	(12,423,938)	(14,306,056)
Less: Allowance for Credit Losses	(69,071)	(69,071)
Total	$ 29,779,966	$ 31,984,996

The held mortgages receivable have been discounted in order to reflect their economic value. The interest rates used to determine the discount range from 3.74% to 8.1% based on prevailing market rates in the year the mortgage originated. These original discounts and related amortization are reflected as a nonoperating activity in the consolidated statement of activities.

The allowance for credit losses and recorded investment in loans is as follows:

	2023	2022
Allowance for Credit Losses:		
Balance at Beginning of the Year	$ 69,071	$ 69,071
Provision for Loan Losses	-	-
Loans Charged-Off	-	-
Recoveries on Sales of Loans	-	-
Balance at End of Year	$ 69,071	$ 69,071

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

	2023			
	Current	30-89 Days Past Due	90 Days or More Past Due	Total
Mortgages Receivable	$ 42,143,691	$ 35,358	$ 93,926	$ 42,272,975

	2022			
	Current	30-89 Days Past Due	90 Days or More Past Due	Total
Mortgages Receivable	$ 44,180,432	$ 786,818	$ 1,392,873	$ 46,360,123

NOTE 7 LONG-TERM NOTES PAYABLE

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

Description	2023	2022
Note Payable, 2.83%, Secured by Specifically Identified Mortgages Receivable, Due in Monthly Installments of $88,977 through September 1, 2040 (a)	$ 9,704,688	$ 10,382,482
Note Payable, 4.25%, Secured by Specific Mortgages Receivable, Due in Monthly Installments of $7,683 through July 1, 2023	-	100,505
Note Payable, 1.43%, Unsecured, Annual interest-only payments of $14,300 with principal balance due on July 14, 2025	-	1,000,000
Note Payable, 1.5%, Unsecured, Quarterly interest-only payments of $3,750 with principal balance due on January 31, 2028	1,000,000	1,000,000
Note Payable, 2.86%, 2.55% and 2.38% based on date of funds were drawn, Unsecured, Annual interest-only payments of '$22,880 with principal balance due on September 30, 2025	800,000	800,000
Note Payable, 1%, Unsecured, Quarterly interest-only payments of $250 with principal balance due on December 31, 2024	100,000	-
Subtotal - Interest-Bearing Notes	11,604,688	13,282,987
Qualified Low Income Community Investment Notes:		
QLICI Note Payable, 0.694151%, Secured by notes receivable of $3,623,316, Due in semi-annual interest-only installments of $18,410 through May 5, 2025. Due in semi-annual principal and interest installments through August 22, 2048	5,304,335	5,304,335
Subtotal - Qualified Low Income Community Investment Notes	5,304,335	5,304,335

NOTE 7 LONG-TERM NOTES PAYABLE (CONTINUED)

Description (Continued)	2023	2022
Noninterest Bearing Notes:		
Notes Payable, Noninterest-bearing, Secured by Specifically Identified Mortgages Receivable, Due in Monthly Installments Based on the Term of the Loans, Current Monthly Installments of $68,938 with Balances Due through June 1, 2043 (a)	$ 6,235,217	$ 6,925,517
Notes Payable, Noninterest-bearing, Unsecured, Due in Monthly Installments to Habitat for Humanity International for the SHOP program over 48 months	10,365	15,981
Note Payable, Noninterest-bearing, Unsecured, Amount Due in Yearly Installments of $6,667 through January 1, 2036	86,661	93,328
Subtotal - Noninterest Bearing Notes	6,332,243	7,034,826
Forgivable Notes:		
Note Payable, Noninterest-bearing, Unsecured, No Payments Required, Forgivable on January 31, 2023 Contingent on Specific Requirements Being Met	-	80,000
Notes Payable, Noninterest-bearing, Unsecured, No Payments Required, Forgivable between July 1, 2032 and June 1, 2038 Contingent on Specific Requirements Being Met	523,273	523,273
Subtotal - Forgivable Notes	523,273	603,273
Total	23,764,539	26,225,421
Less: Unamortized Discount	(2,582,384)	(3,092,998)
Less: Unamortized Origination Fees	(412,706)	(457,890)
Long-Term Notes Payable, Net	$ 20,769,449	$ 22,674,533

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

NOTE 7 LONG-TERM NOTES PAYABLE (CONTINUED)

Maturities of long-term notes payable are as follows:

Year Ending June 30,	Repayable	Forgivable
2024	$ 1,387,495	$ -
2025	1,504,697	-
2026	2,222,388	-
2027	2,651,487	-
2028	6,443,180	-
Thereafter	9,032,019	523,273
Total	$ 23,241,266	$ 523,273

The interest-bearing notes payable were made to the Organization at rates below the prevailing market rates and are discounted at the prevailing market rate at time of origination. These discounts are reflected as contributions in the year of origination.

These original discounts and related amortization are reflected as nonoperating activity in the consolidated statement of activities.

Certain note payable agreements required the Organization to meet certain financial and other covenants of which they were in compliance as of June 30, 2023 or have obtained a waiver.

New Market Tax Credit Financing

In August 2018, the Organization participated in a NMTC program. The program provides tax credits to eligible organizations for investment in “qualified low-income community investments.” Program compliance requirements included creation of a promissory note and investment in a qualified community development activity (CDE). Tax credit recapture is required if compliance requirements are not met over a seven-year period. The Organization originally recorded its 24.44% investment in Twain Investment Fund 306, LLC at the cost of $3,691,733. The Organization’s corresponding note payable is $5,304,335, consisting of one QLICI loan. In August 2025, under the terms of the put option agreement, the put option will be exercised. Exercise of the option will effectively allow the Organization to extinguish its outstanding debt owed to the Fund.

NOTE 8 LINE OF CREDIT

The Organization has two lines of credit with interest rates ranging from 1.00% to the Prime rate less 1.50%, never to drop below 3.25%. One revolving line of credit, which expires in June 2028, permits borrowings up to $25,000,000. The agreement is unsecured. There was an outstanding balance of $4,769,800 and $3,975,000 as of June 30, 2023 and 2022, respectively. The Organization’s subsidiary, TCHFH Lending, Inc., has a warehouse line of credit to borrow up to $7,000,000. The line of credit expires in April 2024. The agreement is secured by mortgage loans in transit. As of June 30, 2023 and 2022, there is an outstanding balance of $3,993,798 and $2,786,350, respectively.

NOTE 9 LEASES

The Organization leases a warehouse facility, office space for the Homebuyer Program and Mortgage Foreclosure Prevention Program, and two outlet stores under noncancelable operating lease agreements. The leases expire at various dates through 2028. In the normal course of business, it is expected that these leases will be renewed or replaced by similar leases. Certain facility leases provide for increases in future minimum annual rental payments based on defined increases in the Consumer Price Index, subject to certain minimum increases. Additionally, the agreements generally require the Organization to pay real estate taxes, insurance, and repairs. Some lease agreements also require the Organization to comply with certain covenants and to maintain certain financial ratios. As of June 30, 2023, the Company believes they are in compliance with all ratios and covenants.

The following table provides the Organization's right of use assets and lease liability for the year ended June 30, 2023:

Right-of-Use Assets:	
Operating Leases, Net	$ 1,657,326
Lease Liabilities:	
Current:	
Operating Leases	503,755
Noncurrent:	
Operating Leases	1,230,538
Total	$ 1,734,293

The following table provides quantitative information concerning the Organization's leases for the year ended June 30, 2023:

Lease Costs:	
Operating Lease Costs	$ 528,347
Other Information:	
Cash Paid for Amounts Included in the Measurement of Lease Liabilities:	
Operating Cash Flows from Operating Leases	$ 530,551
Right of Use Assets Obtained in Exchange for New Operating Lease Liabilities	2,131,072
Weighted-Average Remaining Lease Term Operating Leases	3.6 Years
Weighted-Average Discount Rate - Operating Leases	2.80%

NOTE 9 LEASES (CONTINUED)

The future minimum lease payments under noncancelable leases with terms greater than one year are listed below as of June 30, 2023:

Year Ending June 30,	Operating
2024	$ 544,641
2025	557,308
2026	324,135
2027	310,984
2028	86,034
Undiscounted Cash Flows	$ 1,823,102
Less: Imputed Interest	(88,809)
Total Present Value	$ 1,734,293

Future minimum lease commitments at June 30, 2022 was $2,370,827. Rent expense for the year ended June 30, 2022 were $768,859.

NOTE 10 CONTRIBUTED NONFINANCIAL ASSETS

For the years ended June 30, 2023 and 2022, contributed nonfinancial assets recognized within the consolidated statement of activities included:

	2023	2022
Land and Building Materials	$ 1,017,193	$ 393,799
Tools and Equipment	417,912	276,747
Specialized Labor	22,595	51,006
Subtotal Contributed Nonfinancial Assets	1,457,700	721,552
Clothing and Household Goods (ReStore)	2,864,174	2,550,281
Special Event Donated Material	114,961	77,217
Total Contributed Nonfinancial Assets	$ 4,436,835	$ 3,349,050

All donated services and assets were utilized by the Organization’s programs and supporting services. There were no donor-imposed restrictions associated with the donated services and assets.

Donated land, building materials, and tools and equipment received by the Organization are used to repair or build homes. The Organization estimates the value of donated land using fair value of similar land parcels. The value of building materials, tools and equipment is determined using purchase price of similar materials, tools and equipment.

Donated specialized labor received by the organization is valued and reported at the estimated fair value based on current rates for similar specialized labor services. The Organization also receives a significant amount of donated services from unpaid volunteers who assist in special projects. No amounts have been recognized in the statements of activities for these services because the criteria for recognition have not been satisfied.

NOTE 10 CONTRIBUTED NONFINANCIAL ASSETS (CONTINUED)

Donated appliances, building materials and furniture (ReStore) received by the Organization is sold in the ReStore stores. The Organization estimates the value of donated appliances, building materials and furniture using the sale price of the goods.

Donated special event material recognized comprise donated items or services donated to the Organization to be sold during the live auction of the special event. Donated goods and services were valued and reported at the estimated fair value based on the current rates for similar goods and services.

NOTE 11 DEFINED CONTRIBUTION PLAN

The Organization sponsors a 401(k) and Profit Sharing Plan. Under this plan, eligible employees may elect to defer up to 80% of their eligible compensation.

Under the plan, the Organization contributes an amount on behalf of each eligible participant equal to 100% of their contribution up to 3% of the employees' contributions. Contributions to these plans by the Organization were $268,518 and $203,282 for the years ended June 30, 2023 and 2022, respectively.

NOTE 12 NET ASSETS WITH DONOR RESTRICTIONS

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

	2023	2022
Time Restricted Pledges	$ 7,420,874	$ 1,539,147
Restricted for Program Purposes	320,425	1,305,375
Unappropriated Endowment Earnings	295,363	177,525
Endowment to be Held in Perpetuity	1,197,059	1,197,059
Total	$ 9,233,721	$ 4,219,106

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

	2023	2022
Net Pledges Received	$ 535,584	$ 1,701,817
Program Expenditures Incurred	1,210,310	1,224,491
Total Releases from Restriction	$ 1,745,894	$ 2,926,308

NOTE 13 ENDOWMENT

Donor-Restricted Endowments

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

	2023		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor Restricted Endowment Funds	$ -	$ 1,492,422	$ 1,492,422

	2022		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor Restricted Endowment Funds	$ -	$ 1,374,584	$ 1,374,584

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

	2023		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment Fund Balance, June 30, 2022	$ -	$ 1,374,584	$ 1,374,584
Contributions	-	-	-
Investment Loss	-	117,838	117,838
Appropriations	-	-	-
Endowment Fund Balance, June 30, 2023	$ -	$ 1,492,422	$ 1,492,422

	2022		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment Fund Balance, June 30, 2021	$ -	$ 1,582,991	$ 1,582,991
Contributions	-	-	-
Investment Loss	-	(208,407)	(208,407)
Appropriations	-	-	-
Endowment Fund Balance, June 30, 2022	$ -	$ 1,374,584	$ 1,374,584

NOTE 13 ENDOWMENT (CONTINUED)

Donor-Restricted Endowments (Continued)

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

Investment Objectives and Strategies

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

Spending Policy

The board of directors authorized appropriations as it deems prudent. The Organization has a practice of appropriating for distribution only investment earnings in excess of original endowment principal. Unappropriated earnings for the fiscal years 2009 - 2023 total $295,363.

NOTE 14 INVESTMENTS

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

	2023	2022
Mutual Funds	$ 514,615	$ 442,236
Stocks	305,682	720,154
Fixed Income	2,235,207	1,671,563
Certificate of Deposit	9,000,000	-
Exchange-Traded and Closed-End Funds	196,875	212,194
Total	$ 12,252,379	$ 3,046,147

NOTE 15 FAIR VALUE HIERARCHY

The following table presents the fair value hierarchy for the balances of financial assets and liabilities the Organization measured at fair value on a recurring basis as of June 30. There are certificates of deposit included in the investment balance which are not listed in the below table as they are not measured at fair value.

	2023			
	Level 1	Level 2	Level 3	Total
Mutual Funds	$ 514,615	$ -	$ -	$ 514,615
Stocks	305,682	-	-	305,682
Fixed Income	-	2,235,207	-	2,235,207
Exchange-Traded and Closed-End Funds	196,875	-	-	196,875
Total	$ 1,017,172	$ 2,235,207	$ -	$ 3,252,379

	2022			
	Level 1	Level 2	Level 3	Total
Mutual Funds	$ 442,236	$ -	$ -	$ 442,236
Stocks	720,154	-	-	720,154
Fixed Income	-	1,671,563	-	1,671,563
Exchange-Traded and Closed-End Funds	212,194	-	-	212,194
Total	$ 1,374,584	$ 1,671,563	$ -	$ 3,046,147

NOTE 16 MORTGAGE SERVICING RIGHTS

The Organization's subsidiary, TCHFH Lending Inc., has mortgage servicing rights on mortgages that it originated and sold with servicing retained. The value of these rights was $1,960,897 and $1,573,116 as of June 30, 2023 and 2022, respectively. The servicing asset for June 30, 2023 was determined using a weighted-average note rate of 2.73%, discount rate of 14.5%, and conditional prepayment rate of 4.11%. The servicing asset for June 30, 2022 was determined using a weighted-average note rate of 2.65%, discount rate of 14%, and conditional prepayment rate of 4.02%.

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

	2023	2022
Servicing Fees Earned	$ 463,343	$ 383,558
Gain on Loan Sales	387,781	485,519

NOTE 16 MORTGAGE SERVICING RIGHTS (CONTINUED)

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

	2023	2022
Balance - Beginning of the Year	$ 1,573,116	$ 1,087,597
Additions	387,781	485,519
Balance - End of the Year	$ 1,960,897	$ 1,573,116

NOTE 17 LIQUIDITY AND AVAILABILITY

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

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

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

As of June 30, 2023 and 2022, the following financial assets could readily be made available within one year of the balance sheet date to meet general expenses:

	2023	2022
Available Assets		
Cash and Cash Equivalents	$ 12,061,495	$ 29,941,132
Accounts Receivable	1,645,136	851,620
Contributions Receivable, Due in One Year	3,404,599	867,571
Mortgages Held, Due in One Year	3,200,000	3,400,000
	20,311,230	35,060,323
Other Balances		
Less: Restricted Cash Accounts	(83,952)	(122,072)
Less: Restricted Receipts Not Yet Spent	(600,000)	(1,710,310)
Total Available Assets, Net	$ 19,627,278	$ 33,227,941
Line of Credit Balances Available for General Operations	$ 20,230,200	$ 21,025,000

TWIN CITIES HABITAT FOR HUMANITY, INC.
CONSOLIDATING BALANCE SHEET
JUNE 30, 2023

	Twin Cities Habitat for Humanity, Inc.	Lending, Inc.	Eliminations	Consolidated
ASSETS				
Cash and Cash Equivalents	$ 9,370,869	$ 2,690,626	$ -	$ 12,061,495
Investments	12,252,379	-	-	12,252,379
Accounts Receivable	1,608,266	36,870	-	1,645,136
Mortgage Servicing Asset, Net	-	1,960,897	-	1,960,897
Contributions Receivable, Net	7,331,927	-	-	7,331,927
Related Entity Receivable	1,793,716	-	(1,793,716)	-
Inventory	27,909,193	-	-	27,909,193
Land Held in Trust	1,854,633	-	-	1,854,633
Prepaid and Other Assets	993,811	12,125	-	1,005,936
Leveraged Loan Receivable	3,512,867	-	-	3,512,867
Property and Equipment, Net	8,028,504	-	-	8,028,504
Right of Use Asset, Net	1,657,326	-	-	1,657,326
Mortgages Receivable:				
Mortgages Receivable Held, at Face Value	41,256,142	1,016,833	-	42,272,975
Mortgages Receivable Held for Sale, at Face Value	-	4,221,799	-	4,221,799
Less: Unamortized Discount and Allowance	(12,493,009)	-	-	(12,493,009)
Mortgages Receivable, Net	28,763,133	5,238,632	-	34,001,765
Total Assets	$ 105,076,624	$ 9,939,150	$ (1,793,716)	$ 113,222,058
LIABILITIES AND NET ASSETS				
LIABILITIES				
Accounts Payable	$ 1,851,704	$ 12,702	$ -	$ 1,864,406
Accrued Expenses	1,686,815	4,311	-	1,691,126
Lease Liability	1,734,293	-	-	1,734,293
Related Entity Payable	-	1,793,716	(1,793,716)	-
Line of Credit	4,769,800	3,993,798	-	8,763,598
Unearned Grant Revenue	4,577,017	1,148,527	-	5,725,544
Long-Term Notes Payable:				
Long-Term Notes Payable at Face Value	23,764,539	-	-	23,764,539
Less: Unamortized Discount and Origination Fees	(2,995,090)	-	-	(2,995,090)
Long-Term Notes Payable, Net	20,769,449	-	-	20,769,449
Total Liabilities	35,389,078	6,953,054	(1,793,716)	40,548,416
NET ASSETS				
Without Donor Restrictions	60,453,825	2,986,096	-	63,439,921
With Donor Restrictions	9,233,721	-	-	9,233,721
Total Net Assets	69,687,546	2,986,096	-	72,673,642
Total Liabilities and Net Assets	$ 105,076,624	$ 9,939,150	$ (1,793,716)	$ 113,222,058

TWIN CITIES HABITAT FOR HUMANITY, INC.
CONSOLIDATING STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2023

	Twin Cities Habitat for Humanity, Inc.		Lending, Inc.		Consolidated	
	Without Donor Restrictions	With Donor Restrictions	Without Donor Restrictions	Eliminations	Without Donor Restrictions	With Donor Restrictions
OPERATING REVENUE AND SUPPORT						
Operating Revenue:						
Home Sales (Mortgages Received)	$ 9,225,862	$ -	$ -	$ -	$ 9,225,862	$ -
Investment Income	521,914	117,838	66,844	-	588,758	117,838
ReStore Revenue (Inclusive of In-Kind Contributions of $2,864,174, Net of Direct Expense of $6,115,321)	309,060	-	-	-	309,060	-
Loan Forgiveness	1,089,533	-	-	-	1,089,533	-
Other	120,302	-	1,077,409	(226,285)	971,426	-
Total Operating Revenue	11,266,671	117,838	1,144,253	(226,285)	12,184,639	117,838
Support:						
Contributions	13,970,233	6,642,671	802,084	(802,084)	13,970,233	6,642,671
Public Sector Funds	4,592,300	-	521,997	-	5,114,297	-
In-Kind	1,457,700	-	-	-	1,457,700	-
Special Events, Cash	736,532	-	-	-	736,532	-
Special Events, Donated Goods and Services	114,961	-	-	-	114,961	-
Less Costs of Direct Benefits to Donors	(492,143)	-	-	-	(492,143)	-
Total Special Events	359,350	-	-	-	359,350	-
Total Support	20,379,583	6,642,671	1,324,081	(802,084)	20,901,580	6,642,671
Net Assets Released from Restrictions	1,745,894	(1,745,894)	-	-	1,745,894	(1,745,894)
Total Operating Revenue and Support	33,392,148	5,014,615	2,468,334	(1,028,369)	34,832,113	5,014,615
OPERATING EXPENSES						
Program Services	28,325,135	-	1,677,969	(1,028,369)	28,974,735	-
Management and General	3,368,027	-	47,219	-	3,415,246	-
Fundraising	3,168,789	-	-	-	3,168,789	-
Total Operating Expenses	34,861,951	-	1,725,188	(1,028,369)	35,558,770	-
OPERATING INCREASE (DECREASE) IN NET ASSETS	(1,469,803)	5,014,615	743,146	-	(726,657)	5,014,615
NONOPERATING ACTIVITIES						
Gain on Fixed Asset Disposal	52,459	-	-	-	52,459	-
Amortization of Discount on Mortgages	1,882,118	-	-	-	1,882,118	-
Amortization of Discount on Long-Term Notes Payable	(556,482)	-	-	-	(556,482)	-
NONOPERATING INCREASE IN NET ASSETS	1,378,095	-	-	-	1,378,095	-
TOTAL INCREASE (DECREASE) IN NET ASSETS	(91,708)	5,014,615	743,146	-	651,438	5,014,615
Net Assets - Beginning of Year	60,545,533	4,219,106	2,242,950	-	62,788,483	4,219,106
NET ASSETS - END OF YEAR	$ 60,453,825	$ 9,233,721	$ 2,986,096	$ -	$ 63,439,921	$ 9,233,721

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF CONSOLIDATED FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Twin Cities Habitat for Humanity, Inc. (a nonprofit organization), which comprise the consolidated statement of financial position as of June 30, 2023, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated December 5, 2023.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Twin Cities Habitat for Humanity, Inc.'s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Twin Cities Habitat for Humanity, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Twin Cities Habitat for Humanity, Inc.'s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's consolidated financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be a material weakness. However, material weaknesses may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Twin Cities Habitat for Humanity, Inc.'s consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the consolidated financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
December 5, 2023

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Twin Cities Habitat for Humanity, Inc.'s compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of Twin Cities Habitat for Humanity, Inc.'s major federal programs for the year ended June 30, 2023. Twin Cities Habitat for Humanity, Inc.'s major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, Twin Cities Habitat for Humanity, Inc. complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2023.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative* Requirements*, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Twin Cities Habitat for Humanity, Inc. and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of Twin Cities Habitat for Humanity, Inc.'s compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to Twin Cities Habitat for Humanity, Inc.'s federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Twin Cities Habitat for Humanity, Inc.'s compliance based on our audit. 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, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Twin Cities Habitat for Humanity, Inc.'s compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material noncompliance, 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 Twin Cities Habitat for Humanity, Inc.'s compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.

- Obtain an understanding of Twin Cities Habitat for Humanity, Inc.'s internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Twin Cities Habitat for Humanity, Inc.'s internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Finance Committee
Twin Cities Habitat for Humanity, Inc.

Report on Internal Control Over Compliance

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
December 5, 2023

TWIN CITIES HABITAT FOR HUMANITY, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2023

Federal Grantor/Pass through Grantor/ Program or Cluster Title	Assistance Listing Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Corporation for National and Community Service:			
AmeriCorps (Passed through ServeMinnesota)	94.006	20ESHMN0010001-21	$ 43,827
AmeriCorps (Passed through ServeMinnesota)	94.006	20ESHMN0010001-22	176,329
Total U.S. Corporation for National and Community Services			220,156
U.S. Department of Treasury:			
Community Development Financial Institutions Program	21.020		565,347
COVID-19: Coronavirus State and Local Fiscal Recovery Funds (Passed through City of Minneapolis)	21.027		550,000
Total U.S. Department of Treasury			1,115,347
U.S. Department of Housing and Urban Development:			
Comprehensive Housing Counseling Grant (Passed through Minnesota Homeownership Center)	14.169		79,719
Section 4 Capacity Building for Community Development and Affordable Housing	14.252		28,000
Community Development Block Grant - Passed Through:			
Washington County	14.228	B20UC270006	3,000
Anoka County	14.228	C0009702	1,100,000
City of Minneapolis	14.228	HD1895; NSP1	5,000
Subtotal			1,108,000
HOME Program - Passed Through:			
Anoka County	14.239	C0007905	81,000
Anoka County	14.239	C0008510	79,000
Anoka County	14.239	C0009145	231,500
City of Minneapolis		HD1991	5,600
Washington County	14.239	M19DC270203	163,028
Subtotal			560,128
Total U.S. Department of Housing and Urban Development			1,775,847
Total Federal Awards			$ 3,111,350

See accompanying Notes to Schedule of Expenditures of Federal Awards.

TWIN CITIES HABITAT FOR HUMANITY, INC.
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2023

NOTE 1 BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Twin Cities Habitat for Humanity, Inc. (the Organization) under programs of the federal government for the year ended June 30, 2023. The information in this Schedule is presented in accordance with the requirements of 2 CFR Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations Twin Cities Habitat for Humanity, Inc., it is not intended to and does not present the financial position, changes in net assets, or cash flows of Twin Cities Habitat for Humanity, Inc.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported in the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Organization has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance. No amounts included in the Schedule above were passed through to subrecipients.

TWIN CITIES HABITAT FOR HUMANITY, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2023

Section I – Summary of Auditors' Results

Consolidated Financial Statements

1. Type of auditors' report issued:	Unmodified		
2. Internal control over financial reporting:			
• Material weakness(es) identified?	____ yes	x no	
• Significant deficiency(ies) identified?	____ yes	x none reported	
3. Noncompliance material to financial statements noted?	____ yes	x no	

Federal Awards

1. Internal control over major federal programs:			
• Material weakness(es) identified?	____ yes	x no	
• Significant deficiency(ies) identified?	____ yes	x none reported	
2. Type of auditors' report issued on compliance for major federal programs:	Unmodified		
3. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	____ yes	x no	

Identification of Major Federal Programs

Assistance Listing Number(s)	**Name of Federal Program or Cluster**
14.228	Community Development Block Grant
21.027	Coronavirus State and Local Fiscal Recovery Funds

Dollar threshold used to distinguish between Type A and Type B programs:	Type A - $750,000	
Auditee qualified as low-risk auditee?	____ yes	x no

Section II – Consolidated Financial Statement Findings

Our audit did not disclose any matters required to be reported in accordance with *Government Auditing Standards.*

Section III – Findings and Questioned Costs – Major Federal Programs

Our audit did not disclose any matters required to be reported in accordance with 2 CFR 200.516(a).