

CITY OF LAKES COMMUNITY LAND TRUST

**CONSOLIDATED FINANCIAL STATEMENTS WITH
SUPPLEMENTARY INFORMATION**

**FOR THE YEAR ENDED
DECEMBER 31, 2020**

CITY OF LAKES COMMUNITY LAND TRUST

CONSOLIDATED FINANCIAL STATEMENTS WITH SUPPLEMENTARY INFORMATION

For the Year Ended December 31, 2020
(With Comparative Totals for 2019)

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
City of Lakes Community Land Trust
Minneapolis, Minnesota

We have audited the accompanying consolidated financial statements of the City of Lakes Community Land Trust (a nonprofit organization) and its subsidiaries, which comprise the consolidated statement of financial position as of December 31, 2020, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 auditor's 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.

(Continued)

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the City of Lakes Community Land Trust and its subsidiaries as of December 31, 2020, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the financial statements of City of Lakes Community Land Trust as of December 31, 2019, and we expressed an unmodified opinion on those audited consolidated financial statements in our report dated June 20, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Report on Supplementary Consolidating Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information shown on pages 34 and 35 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and changes in net assets of the individual entities, and it is 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 consolidating information has been subjected to the auditing procedures applied in the audit 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 auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

*Mahoney Ulbrich
Christiansen Russ P.A.*

June 28, 2021

CITY OF LAKES COMMUNITY LAND TRUST

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

December 31, 2020
(With Comparative Totals for 2019)

| | <u>2020</u> | <u>2019</u> |
|--|----------------------|----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 573,650 | \$ 691,083 |
| Cash - recoverable program funds | 469,172 | 295,188 |
| Client advances | 11,900 | 15,309 |
| Accounts receivable | 91,415 | 113,576 |
| Contributions and grants receivable | 302,969 | 494,846 |
| Loans receivable, net, current portion | 98,635 | 191,023 |
| Prepaid expenses | 14,991 | 21,457 |
| Properties held for sale | <u>1,953,881</u> | <u>3,191,180</u> |
| Total current assets | <u>3,516,613</u> | <u>5,013,662</u> |
| Other assets: | | |
| Loans receivable, net, long-term portion | 1,337,612 | 1,238,882 |
| Cash restricted for loan programs | 1,053,818 | 1,234,933 |
| Rental property, net | 223,985 | 242,036 |
| Office property and equipment, net | 197,288 | 216,491 |
| Land held in trust | <u>9,629,244</u> | <u>8,279,144</u> |
| Total assets | <u>\$ 15,958,560</u> | <u>\$ 16,225,148</u> |
| LIABILITIES AND NET ASSETS | | |
| Current liabilities: | | |
| Current maturities of notes payable | \$ 27,612 | \$ 942,122 |
| Lines of credit | - | 300,799 |
| Accounts payable | 33,081 | 34,743 |
| Construction payable | 69,883 | 172,996 |
| Accrued payroll and related | 23,697 | 31,249 |
| Fiscal agency payable | - | 156,219 |
| Client construction funds escrows | 9,498 | 16,266 |
| Recoverable program funds | 469,172 | 295,188 |
| Recoverable grant | 40,000 | 40,000 |
| Refundable advances | <u>241,906</u> | <u>583,736</u> |
| Total current liabilities | 914,849 | 2,573,318 |
| Long-term liabilities: | | |
| Notes payable, less current maturities | 1,039,705 | 917,184 |
| Forgivable loans - affordable housing | <u>5,638,645</u> | <u>5,030,202</u> |
| Total liabilities | <u>7,593,199</u> | <u>8,520,704</u> |
| Net assets: | | |
| Without donor restrictions | 5,347,614 | 4,316,979 |
| With donor restrictions | <u>3,017,747</u> | <u>3,387,465</u> |
| Total net assets | <u>8,365,361</u> | <u>7,704,444</u> |
| Total liabilities and net assets | <u>\$ 15,958,560</u> | <u>\$ 16,225,148</u> |

See accompanying notes to consolidated financial statements.

CITY OF LAKES COMMUNITY LAND TRUST

CONSOLIDATED STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2020
(With Comparative Totals for 2019)

| | 2020 | | | 2019 |
|---|-------------------------------|----------------------------|---------------------|---------------------|
| | Without Donor Restrictions | With Donor Restrictions | Total | |
| Support and revenue: | | | | |
| Contributions | \$ 441,073 | \$ - | \$ 441,073 | \$ 618,408 |
| Government grants - rehabilitation support | 623,419 | - | 623,419 | 430,984 |
| Government grants | 111,919 | - | 111,919 | 23,512 |
| Sale of property: | | | | |
| Sales | 2,097,000 | - | 2,097,000 | 1,335,518 |
| Affordability gap subsidy | 86,824 | - | 86,824 | 195,460 |
| Construction subsidy | 58,669 | - | 58,669 | 164,390 |
| Loans forgiven | 348,138 | - | 348,138 | 159,999 |
| Cost of property sold | (2,306,610) | - | (2,306,610) | (1,852,241) |
| Marketing / developer fees | 59,052 | - | 59,052 | 39,465 |
| Loan interest | 44,546 | - | 44,546 | 65,854 |
| Recovery of deferred loans and grants | 10,500 | - | 10,500 | 20,324 |
| Service and origination fees | 6,479 | - | 6,479 | 12,989 |
| Land lease revenues | 69,265 | - | 69,265 | 61,168 |
| Building rents | 63,410 | - | 63,410 | 49,934 |
| Memberships | 19,679 | - | 19,679 | 17,658 |
| Commissions | 70,656 | - | 70,656 | 48,273 |
| Miscellaneous income | 47,364 | - | 47,364 | 45,177 |
| Interest income | 12,100 | - | 12,100 | 15,184 |
| Net assets released from restrictions | 333,797 | (333,797) | - | - |
| Total support and revenue | <u>2,197,280</u> | <u>(333,797)</u> | <u>1,863,483</u> | <u>1,452,056</u> |
| Expenses: | | | | |
| Land trust | 1,333,121 | - | 1,333,121 | 963,953 |
| Lending | 144,214 | - | 144,214 | 338,380 |
| Realty | 45,055 | - | 45,055 | 35,142 |
| Total program services | <u>1,522,390</u> | <u>-</u> | <u>1,522,390</u> | <u>1,337,475</u> |
| Management and general | 46,318 | - | 46,318 | 82,476 |
| Fundraising | 12,539 | - | 12,539 | 12,380 |
| Total expenses | <u>1,581,247</u> | <u>-</u> | <u>1,581,247</u> | <u>1,432,331</u> |
| Change in net assets before property acquisition transactions and other | 616,033 | (333,797) | 282,236 | 19,725 |
| Property acquisition transactions: | | | | |
| Contributed land | 252,357 | - | 252,357 | 92,514 |
| Government acquisition grants | 521,100 | - | 521,100 | 344,340 |
| Homeownership acquisition subsidies | (358,855) | - | (358,855) | (309,516) |
| Change in net assets before revolving loan fund grants, loan loss reserve adjustment, and recoverable program funds | 1,030,635 | (333,797) | 696,838 | 147,063 |
| Other: | | | | |
| Government grants - revolving loan fund | - | - | - | 20,642 |
| Impairment loss on property | - | (42,580) | (42,580) | - |
| Adjustment to loan loss reserve | - | 163,416 | 163,416 | - |
| Loans reinstated | - | 17,227 | 17,227 | - |
| Program funds returned | - | (173,984) | (173,984) | (139,208) |
| Change in net assets | 1,030,635 | (369,718) | 660,917 | 28,497 |
| Net assets, beginning of year | <u>4,316,979</u> | <u>3,387,465</u> | <u>7,704,444</u> | <u>7,675,947</u> |
| Net assets, end of year | <u>\$ 5,347,614</u> | <u>\$ 3,017,747</u> | <u>\$ 8,365,361</u> | <u>\$ 7,704,444</u> |

See accompanying notes to consolidated financial statements.

CITY OF LAKES COMMUNITY LAND TRUST

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2020
(With Comparative Totals for 2019)

| | 2020 | | | | | | | 2019 |
|--|---------------------|-------------------|------------------|---------------------|---------------------------|------------------|---------------------|---------------------|
| | Program | | | | Management and general | Fundraising | Total | |
| | Land Trust | Lending | Realty | Total | | | | |
| Salaries | \$ 443,999 | \$ 75,023 | \$ - | \$ 519,022 | \$ 20,201 | \$ 9,378 | \$ 548,601 | \$ 410,135 |
| Payroll taxes | 30,535 | 4,818 | - | 35,353 | 1,204 | 602 | 37,159 | 33,088 |
| Employee benefits | 44,435 | 8,588 | - | 53,023 | 1,676 | 1,106 | 55,805 | 51,832 |
| Total salaries and related | 518,969 | 88,429 | - | 607,398 | 23,081 | 11,086 | 641,565 | 495,055 |
| Professional fees | 53,034 | 10,959 | 42,458 | 106,451 | 19,320 | - | 125,771 | 106,864 |
| Office expenses | 16,935 | 2,135 | 569 | 19,639 | 343 | 188 | 20,170 | 9,222 |
| Postage and printing | 3,162 | 629 | 196 | 3,987 | 208 | 74 | 4,269 | 7,705 |
| Occupancy | 36,280 | 2,905 | 257 | 39,442 | 769 | 384 | 40,595 | 38,033 |
| Insurance | 6,582 | 3,281 | 400 | 10,263 | 1,308 | 163 | 11,734 | 6,584 |
| Travel | 501 | 16 | - | 517 | - | - | 517 | 2,651 |
| Equipment rental and maintenance | 6,723 | 1,098 | - | 7,821 | 275 | 137 | 8,233 | 9,656 |
| Dues and subscriptions | 6,575 | 913 | 1,160 | 8,648 | 222 | 111 | 8,981 | 10,421 |
| Outreach and development events | 36,815 | 363 | 15 | 37,193 | 26 | 13 | 37,232 | 17,685 |
| Deferred loans provided | 5,127 | 18,763 | - | 23,890 | - | - | 23,890 | 23,512 |
| Loan processing expenses | - | 11,656 | - | 11,656 | - | - | 11,656 | 26,400 |
| Bad debt | 3,150 | - | - | 3,150 | - | - | 3,150 | 3,989 |
| Provision for loan losses | - | - | - | - | - | - | - | 184,911 |
| Depreciation | 32,734 | 2,906 | - | 35,640 | 726 | 363 | 36,729 | 36,341 |
| Interest | 12,306 | 161 | - | 12,467 | 40 | 20 | 12,527 | 12,229 |
| Rehabilitation project costs | 594,228 | - | - | 594,228 | - | - | 594,228 | 441,073 |
| | 1,333,121 | 144,214 | 45,055 | 1,522,390 | 46,318 | 12,539 | 1,581,247 | 1,432,331 |
| Cost of property sold | 2,306,610 | - | - | 2,306,610 | - | - | 2,306,610 | 1,852,241 |
| Impairment loss on property subsidies | - | 42,580 | - | 42,580 | - | - | 42,580 | - |
| | 358,855 | - | - | 358,855 | - | - | 358,855 | 309,516 |
| | <u>\$ 3,998,586</u> | <u>\$ 186,794</u> | <u>\$ 45,055</u> | <u>\$ 4,230,435</u> | <u>\$ 46,318</u> | <u>\$ 12,539</u> | <u>\$ 4,289,292</u> | <u>\$ 3,594,088</u> |

See accompanying notes to consolidated financial statements.

CITY OF LAKES COMMUNITY LAND TRUST

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2020
(With Comparative Totals for 2019)

| | 2020 | 2019 |
|--|---------------------|---------------------|
| Cash flows from operating activities: | | |
| Change in net assets | \$ 660,917 | \$ 28,497 |
| Adjustments to reconcile the change in net assets to net cash from operating activities: | | |
| Depreciation expense | 36,729 | 36,341 |
| Loss on disposal of fixed assets | 525 | - |
| Contributed land | (252,357) | (92,514) |
| Grants for land acquisition | (489,300) | (164,865) |
| Grants for revolving loan fund | - | (20,642) |
| Government notes payable forgiven | (348,138) | (159,999) |
| Recoverable program funds loss | 173,984 | 139,208 |
| Provision for loan losses | (163,416) | 184,911 |
| Impairment loss on property | 42,580 | - |
| Changes in operating assets and liabilities: | | |
| Accounts and grants receivable | 22,161 | (91,388) |
| Contributions receivable | 191,877 | 530,303 |
| Prepaid expenses | 6,466 | (1,445) |
| Properties held for sale | 1,237,299 | (1,259,645) |
| Loans receivable, net | 111,135 | 90,530 |
| Accounts payable | (1,662) | (24,733) |
| Recoverable program funds, net | - | (406,905) |
| Construction payable | (103,113) | 106,596 |
| Fiscal agency payable | (156,219) | 156,219 |
| Accrued expenses and refundable advances | (349,382) | (12,421) |
| Net cash from operating activities | <u>620,086</u> | <u>(961,952)</u> |
| Cash flows from investing activities: | | |
| Purchase of office property and equipment | - | (1,554) |
| Purchase of land held in trust | (1,080,600) | (343,215) |
| Net cash from investing activities | <u>(1,080,600)</u> | <u>(344,769)</u> |
| Cash flows from financing activities: | | |
| Grants received for land acquisition | 489,300 | 164,865 |
| Grants for revolving loan fund | - | 20,642 |
| Line of credit activity, net | (300,799) | (328,525) |
| Proceeds from notes payable | 321,143 | 1,636,634 |
| Payments on notes payable | (764,994) | (554,594) |
| Proceeds from forgivable loans | 591,300 | 515,624 |
| Net cash from financing activities | <u>335,950</u> | <u>1,454,646</u> |
| Net increase (decrease) in cash, cash equivalents, and restricted cash | (124,564) | 147,925 |
| Cash, cash equivalents, and restricted cash - beginning of year | <u>2,221,204</u> | <u>2,073,279</u> |
| Cash, cash equivalents, and restricted cash - end of year | <u>\$ 2,096,640</u> | <u>\$ 2,221,204</u> |
| Reconciliation to the statement of financial position: | | |
| Cash and cash equivalents | \$ 573,650 | \$ 691,083 |
| Cash - recoverable program funds | 469,172 | 295,188 |
| Cash restricted for loan programs | <u>1,053,818</u> | <u>1,234,933</u> |
| Total cash, cash equivalents, and restricted cash | <u>\$ 2,096,640</u> | <u>\$ 2,221,204</u> |
| Supplemental cash flow disclosures: | | |
| Cash paid for interest expense | \$ 12,542 | \$ 16,391 |
| Noncash investing and financing activities: | | |
| Notes payable forgiven | 348,138 | 159,999 |
| Land in trust acquired by transfer of forgivable loan | 17,143 | 98,571 |

See accompanying notes to consolidated financial statements.

CITY OF LAKES COMMUNITY LAND TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2020
(With Comparative Totals for 2019)

1. ORGANIZATION

The City of Lakes Community Land Trust (the Land Trust) was formed in 2002 to provide and foster perpetually affordable home ownership opportunities for low- and moderate-income individuals and families in Minneapolis, Minnesota.

Residential Land Trust - The Land Trust works with not-for-profit and for-profit housing developers on new construction and/or rehabilitation of housing in Minneapolis. The affordability subsidy that often accompanies affordable home ownership development is preserved by the community land trust model where the Land Trust will own title to the land underlying the house and the homeowner will mortgage title to the physical housing structure. The Land Trust receives government grants which are used to subsidize the cost of homeownership by decreasing the homebuyer's purchase price (acquisition subsidies).

The Land Trust leases the land back to the homeowner for \$15 to \$20 per month. When the homeowner sells the house, the homeowner receives the invested equity plus a percentage of any increase in property value. The increase in value rolls back into the affordability of the house allowing it to be sold to an income qualified low- to moderate-income household approved by the Land Trust.

Other activities include homebuyer education and outreach, homeowner post-purchase support and ongoing education, developing partnership opportunities with housing developers, housing rehabilitation, and general community outreach on the Community Land Trust model.

The Land Trust's activities are supported primarily by contributions and government grants. Other revenues are generated from services provided, land and building rents, interest on loans and excess cash, and memberships. Government programs for NHS include the Community Development Block Grant and the Neighborhood Reinvestment Program (NRP) obtained through the City of Minneapolis (the City). Should NHS terminate operations, government funded assets would be returned to the respective government agency.

(Continued)

CITY OF LAKES COMMUNITY LAND TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2020
(With Comparative Totals for 2019)

1. **ORGANIZATION (Continued)**

Commercial Land Trust Initiative (CLTI) - The purpose of the CLTI program is to (re)develop and preserve long-term affordable commercial spaces through community driven ownership of land. Its vision is that neighborhoods are reflections of the economic, cultural, and social wealth of a community. Neighborhoods where local Black, Indigenous, People of Color (BIPOC) businesses can grow and thrive, residents claim spaces through decision-making power and ownership of land, and together are building a vibrant human-centered economy. The CLTI program is a program of the Land Trust, with guidance of an Advisory Committee giving direction to the activities of the CLTI program. It is anticipated that the CLTI will acquire its first commercial space in 2021. In March 2021, the CLTI Advisory Committee approved a plan to begin the incorporation process with the intent of securing an independent 501(c)(3) status under the name: Partnership in Property Commercial Land Trust.

NHS - The Land Trust is the sole member of Neighborhood Housing Services of Minneapolis (NHS), and the Board of Directors of the Land Trust is the Board of NHS.

Activities of NHS include providing home improvement loans, home improvement grants (deferred loans), community development, and technical assistance to area residents. NHS provides counseling to delinquent borrowers and will occasionally modify loan agreements to allow homeowners to stay in their homes.

CLCR - The Land Trust is the sole member of City of Lakes Community Realty LLC, a Minnesota limited liability nonprofit company (CLCR). CLCR was formed to facilitate Land Trust resales, purchase, and sell residential real estate on behalf of the Land Trust, and represent real estate transactions of partner organizations providing affordable home ownership. The activities are supported primarily from commissions on real estate sales.

Principles of Consolidation - The consolidated financial statements include the Land Trust (parent organization), NHS and CLCR (subsidiary organizations). All significant inter-entity accounts and transactions have been eliminated.

(Continued)

CITY OF LAKES COMMUNITY LAND TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2020
(With Comparative Totals for 2019)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The most significant estimates used in preparation of the financial statements that are particularly susceptible to material change are the allocation of government grants between land in trust and homeownership acquisition subsidy, the determination of the allowance for losses on loans receivable, the valuation of contributed land, and the liability for recoverable program funds.

Financial Statement Presentation - The accompanying consolidated financial statements have been prepared using the accrual basis of accounting.

The consolidated statement of activities presents operating activities separate from land trust property acquisition transactions, government grants for revolving loan funds, impairments, adjustments to the loan loss reserve, and gain (loss) resulting from the recoverable program funds due to the City. Operating activities include revenues and expenses to operate the land trust, lending activities, and housing rehabilitation activities. Land trust property acquisition activities include acquisition of land and the related grants. Management believes that this presentation assists users of the financial statements with understanding the activities.

Net assets, support and revenue are classified based on the presence or absence of donor-imposed restrictions.

Net Assets Without Donor Restrictions

Net assets without donor restrictions are available for use at the discretion of the Board of Directors (the Board) and/or management for general operating purposes. From time to time the Board may designate a portion of these net assets for specific purposes which makes them unavailable for use at management's discretion.

(Continued)

CITY OF LAKES COMMUNITY LAND TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2020
(With Comparative Totals for 2019)

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Net Assets With Donor Restrictions

Net assets with donor restrictions consist of assets whose use is limited by donor-imposed time and/or purpose restrictions.

The Land Trust reports revenue from funders and gifts of cash and other assets as revenue with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends, or purpose restriction is accomplished, the net assets are reclassified as net assets without donor restriction and reported in the consolidated statements of activities as net assets released from restrictions.

Comparative Total Column - The consolidated financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the financial statements for the year ended December 31, 2019, from which the summarized information was derived.

Cash and Cash Equivalents - The Land Trust and its subsidiaries consider all highly liquid temporary investments with an original maturity of three months or less to be cash equivalents.

Cash restricted for recoverable program funds and loan programs is presented separately from operating cash and is considered restricted cash for the statement of cash flows.

Accounts, Grants and Contributions Receivable - Accounts, grants and contributions receivable are stated at the amount management expects to collect. Management reviews balances periodically and establishes an allowance for doubtful accounts based on expected collections. Receivables are written off as a charge to the allowance when, in management's estimation, it is probable that the receivable is worthless. No allowance was considered necessary at December 31, 2020 and 2019.

(Continued)

CITY OF LAKES COMMUNITY LAND TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2020
(With Comparative Totals for 2019)

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Loans Receivable and Allowance for Loan Losses - Lending is considered part of NHS' operations. Loans, other than deferred loans (which are expensed when issued), are stated at the amount of unpaid principal, reduced by an allowance for loan losses. Loans receivable and client construction funds escrows are recognized at the time a loan is closed. As NHS makes loan disbursements, client construction funds escrows are reduced.

Interest on loans is calculated by using the simple interest method on the principal amount outstanding. Interest rates range from 0% to 8%. Interest is recorded when received. Interest continues to accrue on all loans until they are charged off. Unrecorded accrued interest is \$145,828 and \$130,081 at December 31, 2020 and 2019.

The allowance for loan losses is a non-cash reserve established to offset potential or expected losses on loans. The allowance for loan losses is established through a provision charged to expense. Loans are charged against the allowance for loan losses when management believes that the collectability of the principal is unlikely after considering collateral value.

The allowance for loan losses is maintained at a level that, in management's judgment, is adequate to absorb credit losses inherent in the loan portfolio. The amount of the allowance is based on management's evaluation of the collectability of the loan portfolio, based on the nature of the portfolio, credit concentrations, trends in historical loss experience, economic conditions, and other risks inherent in the portfolio.

Deferred Loans Disbursed - Deferred loans are made to homeowners / buyers to assist in acquisition or home improvements and are forgivable in five to ten years. A deferred loan will be forgiven if the homeowner remains the owner and resides in the property for the term of the contract. Deferred loans are expensed when closed since repayment is unlikely. Recoveries of deferred loans are recorded as revenue when received.

Loan Fees - Loan origination fees are recognized as income upon closing of the loan because incremental direct costs incurred on each loan exceed the fees charged.

(Continued)

CITY OF LAKES COMMUNITY LAND TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2020
(With Comparative Totals for 2019)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Properties Held for Sale - To preserve its investment in land trust properties, the Land Trust will at times purchase a land trust property that is in the process of being foreclosed. The Land Trust will also purchase properties from the City of Minneapolis to rehabilitate and sell to qualified homeowners / buyers. These properties are recorded at the lower of cost or estimated net realizable value and offered for sale.

NHS acquires properties by foreclosure of customer loans in default. The properties are then rehabilitated and sold to buyers who meet NHS's criteria. The properties acquired through foreclosure are recorded at the lower of the loan balance or estimated net realizable value of the property at the time of foreclosure.

If the property is being rehabilitated, all architectural costs, construction costs, and other development costs are capitalized. The Land Trust capitalized \$16,849 and \$7,562 of interest in 2020 and 2019.

All costs related to the upkeep of the properties are capitalized as holding costs.

Rental Property - Rental property consists of a fourplex. The rental property is carried at cost. Depreciation is computed using the straight-line method over the estimated useful life beginning when the property was placed in service. The cost of maintenance and repairs is expensed as incurred; significant renewals or betterments are capitalized. Accumulated depreciation totaled \$100,783 and \$82,733 as of December 31, 2020 and 2019. Rental income is recognized over the period to which it relates. All leases are considered operating leases. Lease terms are either one year or month to month.

Office Property and Equipment - Office property and equipment is carried at cost. The Land Trust capitalizes all items in excess of \$1,500 that provide a future benefit. Depreciation is computed using the straight-line method over the estimated useful life. The cost of maintenance and repairs is expensed as incurred; significant renewals or betterments are capitalized.

Contributions of cash that must be used for office property and equipment are reported as net assets with donor restrictions. The Land Trust reports the expiration of donor restrictions when the acquired assets are placed in service unless otherwise stipulated by the donor.

(Continued)

CITY OF LAKES COMMUNITY LAND TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2020
(With Comparative Totals for 2019)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment – The Land Trust reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss is recognized when estimated future undiscounted cash flows from the operation or disposition of the asset are less than the carrying amount. Measurement of an impairment loss is based on the excess of the carrying amount over its fair value. An impairment loss of \$42,580 was recorded in 2020. No impairment losses were recorded in 2019.

Land Held in Trust – Revenue from land leases is recognized over the period to which it relates. Land held in trust includes:

- House / townhouse lots have been acquired through purchase, bargain purchase or donation. The lots acquired by purchase are recorded at the lower of cost or appraised value. The lots acquired by bargain purchase or donation are recorded at appraised value at the date received. The Land Trust has a warranty deed on these lots.
- Condominium units are subject to unit use deed restrictions. Condominium units are recorded at the amount of the affordability gap financing (financing required to make the unit affordable for the buyer).
- The Land Trust works with one other nonprofit developer to preserve affordability of their properties.

Fiscal Agency Payable - The Land Trust periodically acts as an agent for donors and grantors. It accepts assets from donors and agrees to use those amounts to benefit a specified beneficiary. These transactions are not included in the statement of activities since the Land Trust has no discretion in determining how the funds are used. Such agency amounts collected are recorded as liabilities until released to the beneficiary.

Forgivable Loans – Certain government funds received are in the form of forgivable loans. These are recorded as liabilities until the earlier of expiration of the term or repayment. See Note 14.

(Continued)

CITY OF LAKES COMMUNITY LAND TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2020
(With Comparative Totals for 2019)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government Grants and Contracts - Except for revolving loan funds discussed below, government grants are accounted for as contributions. Government grants and contracts are considered conditional based upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Revenue is recognized when eligible expenditures, as defined in each grant or contract, are incurred. Funds received but not yet earned are recorded as refundable advances.

Some government grants for acquisition / rehabilitation of properties are in the form of forgivable loans. These forgivable loans are recognized as revenue when the note matures.

Grants Designated for Revolving Loan Funds - When loans are funded by new government grants, a grant receivable and revenue are recorded when the loan has been approved and committed. Revenue does not match with a related expense when grant and contract revenues are used to create loans which are not deferred.

A specified percentage of principal and interest received on loan payments from NHS's loan portfolio represents administration program income. This income is used to defray administrative expenses related to loan origination and servicing. NHS also receives funds from grantor agencies designated for administration costs.

Revolving loan funds are considered net assets with donor restrictions held in perpetuity.

Contributions - Individual contributions, government grants, and foundation grants are recognized when the donor makes an unconditional commitment to give to the Land Trust. Conditional contributions to give are not recognized until the conditions on which they depend are met. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized.

In-Kind Contributions – Contributed land is recorded at the lower of land value or the affordability gap grant. Donated land on the statement of activities is the recorded value of the land reduced by any forgivable loan on the land. Donated materials and services are recorded as contributions at their estimated fair value on the date received. The Land Trust received \$623 of forgiven interest on the PPP loan in 2020 and \$500 of donated rehabilitation materials in 2019, which is included in contributions on the statement of activities.

(Continued)

CITY OF LAKES COMMUNITY LAND TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2020
(With Comparative Totals for 2019)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Unpaid volunteers have made significant contributions of their time to the Land Trust's programs. The fair value of this contributed time is reflected in the financial statements only if the services create or enhance nonfinancial assets or require specialized skills and would typically need to be purchased if not provided by donation. The Land Trust recorded no contributed services in 2020 or 2019.

Marketing / Developer Fees - Marketing / developer fees represent fees earned at the time of acquisition and sale of properties for services provided.

Functional Expenses - The costs of providing programs and other activities have been summarized on a functional basis in the statement of activities and statement of functional expenses. Accordingly, certain costs have been allocated among program services and supporting services benefited. Such allocations are determined by management using the methods below:

| Expense | Method of Allocation |
|--|-----------------------------|
| Salaries and benefits | Full-time equivalents |
| Office expenses, postage, and printing | Full-time equivalents |
| Occupancy | Square footage |
| Insurance | Full-time equivalents |
| Travel | Full-time equivalents |
| Equipment rental and expense | Full-time equivalents |
| Dues and subscriptions | Full-time equivalents |
| Depreciation | Square footage |
| Interest | Full-time equivalents |

Income Taxes - The Land Trust and its subsidiaries are classified as tax-exempt organizations under Minnesota Statute 290.05 and Section 501(c)(3) of the Internal Revenue Code, are exempt from private foundation status under Section 509(a)(1) of the Internal Revenue Code and are subject to income taxes only on net unrelated business income.

Income from operation of the rental property is subject to unrelated business income taxes because the building is debt financed. No income taxes were paid in 2020 or 2019. Management believes the Land Trust and its subsidiaries do not have any uncertain tax positions.

(Continued)

CITY OF LAKES COMMUNITY LAND TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2020
(With Comparative Totals for 2019)

3. CONTRIBUTIONS AND GRANTS RECEIVABLE

Contributions and grants receivable primarily consist of amounts due from government agencies for property acquisition and rehabilitation. Contributions and grants receivable are due in 2021.

4. LOANS RECEIVABLE - NHS

Loans receivable represent fixed rate home acquisition and improvement loans made to residents in Minneapolis. Most loans/collateral would likely fail to meet commercial credit standards. Repayment terms range from six months to 30 years. NHS will occasionally modify loan agreements to allow homeowners to stay in their homes. The loans are collateralized by the related property.

Specified program funding contracts have been closed out or terminated. As a result, program income totaling \$406,627 will be returned to the City of Minneapolis in 2021. Remaining recoverable program funds will be returned in future years.

Loans receivable, net, by portfolio are as follows:

| | 2020 | 2019 |
|---------------------------------------|--------------|--------------|
| First mortgage loans | \$ 449,620 | \$ 492,371 |
| Contracts for deed | 634,749 | 665,239 |
| Home improvement loans | 478,161 | 565,751 |
| Due on sale loans | 110,501 | 128,081 |
| Total loans receivable | 1,673,031 | 1,851,442 |
| Less allowance for loan losses | (236,784) | (421,537) |
| | | |
| Total loans receivable, net | 1,436,247 | 1,429,905 |
| Less loans receivable current portion | (98,635) | (191,023) |
| | \$ 1,337,612 | \$ 1,238,882 |

(Continued)

CITY OF LAKES COMMUNITY LAND TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2020

(With Comparative Totals for 2019)

4. LOANS RECEIVABLE (Continued)

Activity in the allowance for loan losses was as follows:

| | 2020 | 2019 |
|------------------------------------|------------|------------|
| Beginning balance | \$ 421,537 | \$ 303,279 |
| Loans charged off | (21,337) | (66,653) |
| Change in the provision for losses | (163,416) | 184,911 |
| Ending balance | \$ 236,784 | \$ 421,537 |

A summary of the loans receivable aging by portfolio at December 31, 2020, follows:

| | First mortgage loans | Contracts for deed | Home improvement loans | Due on sale loans | Total |
|--------------|----------------------------|-----------------------|------------------------------|----------------------|--------------|
| Current | \$ 126,263 | \$ 119,797 | \$ 256,881 | \$ - | \$ 502,941 |
| 0 - 90 days | 169,046 | 135,896 | 52,012 | - | 356,954 |
| Over 90 days | 154,311 | 379,056 | 169,268 | - | 702,635 |
| Due on sale | - | - | - | 110,501 | 110,501 |
| Total | \$ 449,620 | \$ 634,749 | \$ 478,161 | \$ 110,501 | \$ 1,673,031 |

A summary of the loans receivable aging by portfolio at December 31, 2019, follows:

| | First mortgage loans | Contracts for deed | Home improvement loans | Due on sale loans | Total |
|--------------|----------------------------|-----------------------|------------------------------|----------------------|--------------|
| Current | \$ - | \$ 279,433 | \$ 379,992 | \$ - | \$ 659,425 |
| 0 - 90 days | 127,685 | - | 20,297 | - | 147,982 |
| Over 90 days | 364,686 | 385,806 | 165,462 | - | 915,954 |
| Due on sale | - | - | - | 128,081 | 128,081 |
| Total | \$ 492,371 | \$ 665,239 | \$ 565,751 | \$ 128,081 | \$ 1,851,442 |

Amounts reflected above include both principal and delinquent amounts.

(Continued)

CITY OF LAKES COMMUNITY LAND TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2020
(With Comparative Totals for 2019)

4. LOANS RECEIVABLE (Continued)

A summary of the allowance for loan losses by portfolio at December 31, 2020, follows:

| | First mortgage loans | Contracts for deed | Home improvement loans | Due on sale loans | Total |
|----------------------|----------------------------|-----------------------|------------------------------|----------------------|-------------------|
| Beginning balance | \$ 82,880 | \$ 236,255 | \$ 90,233 | \$ 12,169 | \$ 421,537 |
| Charged off | - | - | (21,338) | - | (21,338) |
| Provision for losses | (4,654) | (210,580) | 63,988 | (12,169) | (163,415) |
| Ending balance | <u>\$ 78,226</u> | <u>\$ 25,675</u> | <u>\$ 132,883</u> | <u>\$ -</u> | <u>\$ 236,784</u> |

A summary of the allowance for loan losses by portfolio at December 31, 2019, follows:

| | First mortgage loans | Contracts for deed | Home improvement loans | Due on sale loans | Total |
|------------------------|----------------------------|-----------------------|------------------------------|-------------------------|-------------------|
| Beginning balance | \$ 87,500 | \$ 46,000 | \$ 169,779 | \$ - | \$ 303,279 |
| Charged off Loans | - | - | (66,653) | - | (66,653) |
| Loans returned to City | - | - | - | - | - |
| Provision for losses | (4,620) | 190,255 | (12,893) | 12,169 | 184,911 |
| Ending balance | <u>\$ 82,880</u> | <u>\$ 236,255</u> | <u>\$ 90,233</u> | <u>\$ 12,169</u> | <u>\$ 421,537</u> |

NHS evaluates each loan for impairment. Factors considered include payment history, the current financial and health situation of the borrower, and the value of the collateral securing the loan.

NHS recognizes interest income on impaired loans when received. Payments received are first applied to any past due interest accrued and then to principal.

(Continued)

CITY OF LAKES COMMUNITY LAND TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2020
(With Comparative Totals for 2019)

4. LOANS RECEIVABLE (Continued)

An allowance is recorded for each impaired loan. A summary of information related to impaired loans at and for the year ended December 31, 2020 follows:

| | First mortgage loans | Contracts for deed | Home improvement loans | Due on sale loans | Total |
|-----------------------------|----------------------------|-----------------------|------------------------------|----------------------|--------------|
| Unpaid principal | \$ 449,619 | \$ 379,056 | \$ 478,161 | \$ - | \$ 1,306,836 |
| Allowance for loan losses | (78,227) | (25,675) | (132,882) | - | (236,784) |
| Net balance | 371,392 | 353,381 | 345,279 | - | 1,070,052 |
| Number of impaired loans | 5 | 3 | 45 | - | |
| Average recorded investment | 74,278 | 117,793 | 7,673 | - | |

NHS services loans with a balance of \$1,011,409 as of December 31, 2020. These loans are held by other organizations and are not included in the financial statements of NHS.

Client advances represent amounts advanced by NHS to pay property taxes and insurance on properties secured by NHS loans receivable. NHS recovers these advances from loan payments received. Client construction funds escrows are loan funds that have been committed but not disbursed for home improvement and repair projects.

5. PROPERTY HELD FOR SALE

The Land Trust has been awarded funding from the City of Minneapolis and Hennepin County to purchase and rehabilitate single family properties in the City of Minneapolis which must be sold to qualified buyers. During 2020, 8 Land Trust properties were developed and sold to qualified buyers and 20 houses were in the process of rehabilitation at December 31, 2020. During 2019, 6 Land Trust properties were developed and sold to qualified buyers and 22 houses were in the process of rehabilitation at December 31, 2019.

(Continued)

CITY OF LAKES COMMUNITY LAND TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2020

(With Comparative Totals for 2019)

6. FORECLOSED RESIDENTIAL REAL ESTATE

At December 31, 2020 NHS had one residential real estate property acquired through foreclosure with a carrying amount of \$98,951. At December 31, 2019 NHS had two properties with a carrying amount of \$169,005. These are reported as properties held for sale. These are properties for which physical possession had been obtained, either through (a) legal title obtained upon completion of foreclosure proceedings, or (b) conveyance by the borrower in satisfaction of a loan through completion of a deed in lieu of foreclosure or another similar legal agreement. There were no loans for which formal foreclosure proceedings were in process at December 31, 2020.

NHS sold one property to the Land Trust in 2020. The other property was sold to a market rate buyer in March 2021. One property was sold in 2019.

7. OFFICE PROPERTY AND EQUIPMENT

Office property and equipment consists of the following:

| | 2020 | 2019 | Estimated useful life - years |
|----------------------------------|-------------------|-------------------|-------------------------------------|
| Land and land improvements | \$ 26,760 | \$ 26,760 | 10 |
| Office building and improvements | 328,833 | 328,833 | 5 - 20 |
| Equipment | 12,122 | 12,995 | 3 - 5 |
| | 367,715 | 368,588 | |
| Less accumulated depreciation | (170,427) | (152,097) | |
| | <u>\$ 197,288</u> | <u>\$ 216,491</u> | |

(Continued)

CITY OF LAKES COMMUNITY LAND TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2020

(With Comparative Totals for 2019)

8. LAND HELD IN TRUST

Land held in trust consists of the following:

| | 2020 | 2019 |
|--|--------------|--------------|
| House / townhouse lots (285 - 2020 and 257 - 2019) | \$ 8,095,158 | \$ 6,745,058 |
| Condominium units (24 - 2020 and 24 - 2019) | 1,534,086 | 1,534,086 |
| Warranty deed homes (12 - 2020 and 12 - 2019) | - | - |
| | \$ 9,629,244 | \$ 8,279,144 |

The Land Trust has first right of refusal to purchase a property within 55 days of notice to sell from the homeowner. If the Land Trust does not purchase the property, the homeowner may sell the property and assign the land lease to an income qualified buyer. If the homeowner does not sell the property within one year, the Land Trust is appointed attorney in fact and will assist in locating a buyer.

9. LINES OF CREDIT

Outstanding balances on lines of credit are as follows at December 31:

| | 2020 | 2019 |
|-----------------------|------|------------|
| Bremer Bank | \$ - | \$ - |
| Land Bank Twin Cities | - | 300,799 |
| | \$ - | \$ 300,799 |

Bremer Bank - Two bank lines of credit aggregating \$230,000. The interest rate is 1% above the prime rate with a floor of 4.50%. The lines of credit are for program purposes and mature on August 31, 2022. Secured by all assets of the Land Trust.

Land Bank Twin Cities, Inc. - Master line of credit aggregating \$750,000 for acquisition, demolition, holding costs and rehabilitation of housing properties. The interest rate varies property by property. Each property loan must be repaid upon sale, but no later than 12 months following the acquisition date. The master line of credit matures on January 5, 2022. Advances are secured by a mortgage on each property.

(Continued)

CITY OF LAKES COMMUNITY LAND TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2020
(With Comparative Totals for 2019)

10. RECOVERABLE GRANT

The Land Trust has a \$40,000 recoverable grant repayable to the Local Initiatives Support Corporation (LISC) without interest. The grant was used to support the Land Trust in fostering stewardship of perpetually affordable homeownership. Repayment of all or a portion of the grant will not be required in certain circumstances.

11. RECOVERABLE PROGRAM FUNDS

Since 2015, the City of Minneapolis (the City) has closed out various contracts with NHS and NHS has returned loans and cash related to funds that were closed.

Recoverable program funds activity is as follows:

| | <u>2020</u> | <u>2019</u> |
|--|-------------------|-------------------|
| Recoverable program funds, beginning balance | \$ 295,188 | \$ 562,865 |
| Less: cash returned to the City of Minneapolis | - | (440,099) |
| | - | (122,766) |
| Plus: 2020 accrual for funds to be returned | 173,984 | 295,188 |
| Recoverable program funds, ending balance | <u>\$ 469,172</u> | <u>\$ 295,188</u> |

In addition, in 2020 the City reinstated three additional loans to NHS totaling \$17,226 that had been previously returned to the City. NHS continues to hold the loans.

(Continued)

CITY OF LAKES COMMUNITY LAND TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2020
(With Comparative Totals for 2019)

12. NOTES PAYABLE

Notes payable are as follows at December 31:

| | 2020 | 2019 |
|--------------------------|--------------|------------|
| Office building: | | |
| Propel Nonprofits - CPED | \$ 7,538 | \$ 15,599 |
| Propel Nonprofits | 9,855 | 20,146 |
| Rental property: | | |
| Bremer Bank | 209,939 | 218,990 |
| Houses: | | |
| Pohlad Foundation | 690,000 | 690,000 |
| Northeast Bank | - | 229,348 |
| City of Minneapolis | 149,985 | 685,223 |
| | 1,067,317 | 1,859,306 |
| Less current maturities | (27,612) | (942,122) |
| | \$ 1,039,705 | \$ 917,184 |

Propel Nonprofits - CPED - The Land Trust received a \$75,000 loan for its office building. These funds were provided by the City of Minneapolis Community Planning and Economic Development's (CPED) Commercial Corridors Small Business Revolving Loan Fund Program. The loan bears interest at 2.0%. Monthly principal and interest payments of \$690 are due through November 16, 2021 when any unpaid principal and interest are due. The loan is secured by a mortgage on the office property and a security interest in substantially all the assets of the Land Trust.

Propel Nonprofits - The Land Trust received an \$85,000 loan for its office building. The loan bears interest at 5.50%. Monthly principal and interest payments of \$923 are due through November 16, 2021, when any unpaid principal and interest are due. The loan is secured by a mortgage on the office property and a security interest in substantially all the assets of the Land Trust.

(Continued)

CITY OF LAKES COMMUNITY LAND TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2020

(With Comparative Totals for 2019)

12. NOTES PAYABLE (Continued)

Bremer Bank - The Land Trust entered into a financing agreement with Bremer Bank, National Association in the amount of \$250,000 to refinance a previous mortgage. The loan bore interest at 4.43%. Monthly principal and interest payments of \$1,581 were originally due through April 27, 2021.

The financing agreement was modified in March 2021. Under the modified agreement, the Land Trust will make payments of \$1,577 including interest at 4.10% through April 27, 2028, at which time all remaining principal and interest are due. The Land Trust is required to maintain a debt service coverage ratio of not less than to 1.05 to 1.0 as of the end of each fiscal year. The loan is secured by a mortgage and revenues from the rental property.

Pohlad Foundation Promissory Note - The Land Trust entered into a loan agreement with the Pohlad Family Foundation on June 7, 2019, for \$690,000. Advances were used to finance the purchase of six houses in Minneapolis. The note bears interest at 2% which is paid quarterly, beginning in September 2019. The note matures June 1, 2024, and is secured by a mortgage on each of the six houses.

Northeast Bank Promissory Notes - The Land Trust entered into two loan agreements with Northeast Bank in 2019 which allow for total borrowing of up to \$270,000 for the purchase and rehabilitation of two properties. The notes were repaid in 2020 when the homes were sold. The loan agreements matured in 2020 and were not renewed.

City of Minneapolis - The Land Trust has entered into several zero-interest housing acquisition and rehabilitation loan agreements with the City of Minneapolis. The loans are used to purchase, rehabilitate, and sell foreclosed houses as affordable housing to qualified households. The principal amount is either due upon the sale of a house, or it may be forgiven, depending upon the contract. Loans forgiven totaled \$348,138 and \$159,999 in 2020 and 2019. Under the City of Minneapolis loan program, there is no aggregate maximum borrowing limit. Secured by the related properties.

(Continued)

CITY OF LAKES COMMUNITY LAND TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2020
(With Comparative Totals for 2019)

12. NOTES PAYABLE (Continued)

Maturities of notes payable are as follows:

| | | |
|-------------|----|------------------|
| 2021 | \$ | 27,612 |
| 2022 | | 10,822 |
| 2023 | | 11,821 |
| 2024 | | 701,738 |
| 2025 | | 12,256 |
| Thereafter | | 153,083 |
| Due on sale | | 149,985 |
| | | <u>149,985</u> |
| | \$ | <u>1,067,317</u> |

13. PAYCHECK PROTECTION PROGRAM (PPP) LOAN

The Land Trust received a PPP loan of \$96,400 in April 2020. The loan was forgiven on December 8, 2020. The loan forgiveness income is included in government grants on the statement of activities.

14. FORGIVABLE LOANS

Forgivable loans consist of the following:

| | 2020 | 2019 |
|----------------------------------|---------------------|---------------------|
| Hennepin County HRA | \$ 3,837,810 | \$ 3,578,117 |
| Minnesota Housing Finance Agency | 642,700 | 293,950 |
| City of Minneapolis | 1,158,135 | 1,158,135 |
| | <u>5,638,645</u> | <u>5,030,202</u> |
| | <u>\$ 5,638,645</u> | <u>\$ 5,030,202</u> |

(Continued)

CITY OF LAKES COMMUNITY LAND TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2020
(With Comparative Totals for 2019)

14. **FORGIVABLE LOANS (Continued)**

The Land Trust has entered into forgivable loan agreements with the Hennepin County Housing and Redevelopment Authority, the City of Minneapolis, and the Minnesota Housing Finance Agency. The funds are used to acquire and/or rehabilitate affordable homeownership units which provide homeownership opportunities for eligible low and very low-income households in Minneapolis. The loans will be forgiven if the units are occupied by qualified owners as defined in the agreement for a period of 30 years (beginning in 2005). If the units are not occupied by qualified owners, the loans must be repaid.

The Hennepin County HRA loans are interest free and the City of Minneapolis loans have interest rates of either 0% or 2%. It is management's intention to maintain compliance for the term of these agreements and accordingly, interest has not been recorded.

(Continued)

CITY OF LAKES COMMUNITY LAND TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2020
(With Comparative Totals for 2019)

15. COMMITTED GRANTS AND CONTRACTS

A summary of significant committed grants and contracts in progress at December 31, 2020, follows:

| MN Housing Contract # | Contract expiration date | Committed contract amount | Revenue as of December 31, 2020 | Forgivable mortgage as of December 31, 2020 | Unobligated contract funding |
|-----------------------|--------------------------|---------------------------|---------------------------------|---|------------------------------|
| 10-2016-02 Grant | 6/4/20 | \$ 937,500 | \$ 927,500 | - | \$ 9,930 |
| 10-2016-04 Grant | 6/4/20 | 525,000 | 255,001 | 262,750 | 269,999 |
| 10-2017-02 Grant | 2/1/21 | 900,000 | 705,639 | - | 194,361 |
| 10-2017-02 Bond | 2/1/21 | 400,000 | 229,500 | 170,750 | - |
| 11-2018-05 Grant | 4/1/21 | 1,100,000 | 591,850 | - | 508,150 |
| 11-2018-05 Bond | 4/1/21 | 400,000 | - | 400,000 | - |
| 11-2018-06 Grant | 4/1/21 | 150,000 | 50,000 | - | 100,000 |
| 11-2018-06 Bond | 4/1/21 | 60,000 | 20,000 | - | 40,000 |
| 11-2019-04 Grant | 12/1/21 | 650,000 | 143,280 | - | 507,270 |
| 11-2019-04 Bond | 12/1/21 | 200,000 | - | 45,000 | 155,000 |
| 11-2019-05 Grant | 12/1/21 | 135,000 | - | - | 135,000 |
| 11-2019-05 Bond | 12/1/21 | 732,168 | - | - | 732,168 |

The Land Trust can collect unobligated contract funding for costs incurred prior to the expiration date of the contract.

(Continued)

CITY OF LAKES COMMUNITY LAND TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2020
(With Comparative Totals for 2019)

16. **NET ASSETS WITH DONOR RESTRICTIONS**

Net assets with donor restrictions consisted of the following:

| | 2020 | 2019 |
|---|------------------|------------------|
| Subject to expenditure for specified purpose: | | |
| Land held in trust acquisitions | \$ - | \$ 1,116 |
| Commercial land trust research | 75,830 | 169,810 |
| Development of contract for deed properties | 300,000 | 300,000 |
| Preventing property tax forfeitures | 145,710 | 216,667 |
| Loan programs | 1,053,818 | 1,234,933 |
| | 1,575,358 | 1,922,526 |
| Subject to expenditure for specified purpose when a future event occurs: | | |
| Loan programs – properties held for sale | 98,951 | 169,006 |
| Loan programs – loans receivable, net of client construction funds escrow | 1,336,146 | 1,155,308 |
| | 1,435,097 | 1,324,314 |
| Subject to the passage of time: | | |
| General operating – time restricted | 7,292 | 140,625 |
| | 7,292 | 140,625 |
| Total net assets with donor restrictions | \$ 3,017,747 | \$ 3,387,465 |

Donor-restricted resources include NHS revolving loan funds and NHS properties held for sale, which includes support and revenues designated to provide loans and grants. A significant portion of these assets would be returned to government agencies if NHS were to terminate operations or upon the funder’s request.

(Continued)

CITY OF LAKES COMMUNITY LAND TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2020
(With Comparative Totals for 2019)

17. NET ASSETS RELEASED FROM DONOR RESTRICTIONS

Net assets released from donor restrictions; adjustments; and funds returned are as follows:

| | <u>2020</u> | <u>2019</u> |
|---|-----------------------|-----------------------|
| General operating – time restricted | \$ 134,421 | \$ 211,000 |
| Commercial land trust research | 93,981 | 16,861 |
| Project Sustained Legacy | 70,956 | - |
| Interest receipts, administrative fees, and other | 34,439 | - |
| Loans receivable adjustments | - | 156,994 |
| Recoverable program funds | 173,984 | 139,208 |
| Impairment loss on property | <u>42,580</u> | <u>-</u> |
| Net assets released from donor restrictions | <u>\$ 550,361</u> | <u>\$ 524,063</u> |

For NHS revolving loan funds, donor restrictions may be released when loans are determined to be uncollectable; deferred loans are issued; program income is used for general administrative expenses at an approved rate; authorization is obtained from the resource provider; funds are returned to a funding source; and development costs are not recoverable.

18. BOARD DESIGNATED NET ASSETS

City of Lakes Community Land Trust’s governing board has designated \$487,503 of net assets for the following purposes as of December 31, 2020. The Land Trust’s operating reserve can be used for any purpose with the approval of the Finance Committee or the Board. The NHS loan funds are designated for use as development gap funds.

| | |
|---|-----------------------|
| Land Trust operating reserve | \$ 21,200 |
| NHS loan funds without donor restrictions | <u>466,303</u> |
| Total board designated net assets | <u>\$ 487,503</u> |

(Continued)

CITY OF LAKES COMMUNITY LAND TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2020

(With Comparative Totals for 2019)

19. LIQUIDITY AND AVAILABILITY OF RESOURCES

For purposes of analyzing resources available to meet general expenditures over the next 12-month period, the Land Trust considers all expenditures related to its ongoing activities, as well as activities undertaken to support those activities, to be general expenditures. Cash restricted for loan programs and loans receivable are not included in financial assets available for general expenditures below because they are restricted for lending activities.

Financial assets available for general expenditure within one year of the statement of financial position date are as follows:

| | 2020 | 2019 |
|--|----------------|----------------|
| Cash | \$ 573,650 | \$ 691,083 |
| Cash – recoverable program funds | 469,172 | 295,188 |
| Client advances | 11,900 | 15,309 |
| Accounts receivable | 91,415 | 113,576 |
| Contributions and grants receivable | 302,969 | 494,846 |
| Total financial assets | 1,449,106 | 1,610,002 |
| Amounts unavailable for general expenditures within one year: | | |
| Recoverable program funds | (469,172) | (295,188) |
| Cash restricted by donors for specific purposes | (225,664) | (69,811) |
| Cash restricted for fiscal agency | - | (156,219) |
| Total amounts unavailable for general expenditures within one year | (694,836) | (521,218) |
| Board designated amounts unavailable to management without the Board’s approval: | | |
| Board designated operating reserve cash | (144,088) | (170,112) |
| Total financial assets available within one year after Board designations | \$ 610,182 | \$ 918,672 |

(Continued)

CITY OF LAKES COMMUNITY LAND TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2020
(With Comparative Totals for 2019)

19. LIQUIDITY AND AVAILABILITY OF RESOURCES (Continued)

In addition to financial assets available to meet general expenditures over the next 12 months, the Land Trust operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures.

To help manage unanticipated liquidity needs, the Land Trust has committed lines of credit totaling \$980,000, which it could draw upon. Additionally, the Land Trust has Board designated net assets without donor restrictions that could be made available for current operations, if necessary. In 2021, the Land Trust signed a commitment letter with another lender that would provide another \$1,000,000 line of credit. The loan closed on June 15, 2021.

20. RETIREMENT PLAN

The Land Trust offers a Simplified Employee Pension (SEP) plan to all employees. The plan provides employees with a tax-deferred opportunity to accumulate savings for retirement through payroll deduction. The Land Trust will contribute an amount equal to 3% of an employee's yearly salary to this plan. Contributions to this plan were \$16,231 in 2020 and \$12,128 in 2019.

21. CONCENTRATIONS

During 2020, two organizations individually provided 25% and 23% of contributions support. During 2019, two organizations individually provided 42% and 29% of contributions support.

Minnesota Housing Finance Agency provided substantially all government grant revenues during 2020 and 2019.

A large portion of assets consist of loans, land, property held for sale, and air rights located in Minneapolis, Minnesota.

The Land Trust and its subsidiaries maintain bank accounts at various financial institutions. Although at times the amount on deposit may exceed the federally insured limit, the Land Trust and its subsidiaries have not experienced any losses. At December 31, 2020 and 2019 cash balances exceeded federally insured limits by approximately \$345,179 and \$537,443.

(Continued)

CITY OF LAKES COMMUNITY LAND TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2020
(With Comparative Totals for 2019)

22. COMMITMENTS AND CONTINGENCIES

The Land Trust has provided a guaranty to the Hennepin County Housing and Redevelopment Authority for \$180,000 of loans for development of low-income housing units through 2035. These loans are made to the project developer (not the Land Trust) and secured by the property. The Land Trust has not recorded the guaranty obligation on the financial statements because management believes it is unlikely that the Land Trust will incur any costs.

Some governmental grants require the funds to be used to acquire or rehabilitate affordable housing. These funds are repayable if not used for the intended purpose during the term of the compliance period (generally up to 30 years). These grants were recognized as revenue prior to the implementation of Accounting Standards Update 2018-08.

Amounts received from grantor agencies are subject to audit and adjustment by grantor agencies. Any disallowed grant costs may constitute a liability. The amount, if any, of costs which may be disallowed by the grantor agencies will be recognized in the year determined.

On March 11, 2020, the World Health Organization declared the outbreak of a coronavirus (COVID-19) pandemic. The Land Trust navigated the balance of 2020 on a week-by-week basis from that point forward. As the State of Minnesota tightened social distancing rules, the Land Trust spent approximately three weeks in May allowing only one staff person in the office at any time and closed the offices to any visitors. The Land Trust assumed the worst of the pandemic and immediately put organizational and financial contingency plans in place assuming potential staff reductions and strict measures. Ultimately, those measures were not needed. The Minneapolis housing market and demand for Land Trust services has only increased through 2020. The Land Trust was successful in receiving a PPP loan of \$96,400 in April 2020, which was forgiven in December 2020. Future impacts of COVID-19 are uncertain and cannot be estimated at this time.

(Continued)

CITY OF LAKES COMMUNITY LAND TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2020
(With Comparative Totals for 2019)

23. SUBSEQUENT EVENTS (Continued)

Management has evaluated subsequent events through June 28, 2021, the date on which the financial statements were available for issue.

SUPPLEMENTARY CONSOLIDATING INFORMATION

CITY OF LAKES COMMUNITY LAND TRUST

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

December 31, 2020

| | City of Lakes Community Land Trust | Neighborhood Housing Services | City of Lakes Community Realty | Eliminations | Total |
|--|--|-------------------------------------|--------------------------------------|---------------------|----------------------|
| ASSETS | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | \$ 243,250 | \$ 317,789 | \$ 12,611 | \$ - | \$ 573,650 |
| Cash - recoverable program funds | - | 469,172 | - | - | 469,172 |
| Client advances | - | 11,900 | - | - | 11,900 |
| Accounts receivable | 91,865 | 302,463 | 50,000 | (352,913) | 91,415 |
| Contributions and grants receivable | 302,969 | - | - | - | 302,969 |
| Loans receivable, net, current portion | - | 98,635 | - | - | 98,635 |
| Prepaid expenses | 10,596 | 3,380 | 1,015 | - | 14,991 |
| Properties held for sale | 1,854,930 | 98,951 | - | - | 1,953,881 |
| Total current assets | <u>2,503,610</u> | <u>1,302,290</u> | <u>63,626</u> | <u>(352,913)</u> | <u>3,516,613</u> |
| Other assets: | | | | | |
| Loans receivable, net, long-term portion | - | 1,374,650 | - | (37,038) | 1,337,612 |
| Cash restricted for loan programs | - | 1,053,818 | - | - | 1,053,818 |
| Investment in LLC | 100 | - | - | (100) | - |
| Rental property, net | 223,985 | - | - | - | 223,985 |
| Office property and equipment, net | 197,288 | - | - | - | 197,288 |
| Land held in trust | 9,629,244 | - | - | - | 9,629,244 |
| Total assets | <u>\$ 12,554,227</u> | <u>\$ 3,730,758</u> | <u>\$ 63,626</u> | <u>\$ (390,051)</u> | <u>\$ 15,958,560</u> |
| LIABILITIES AND NET ASSETS | | | | | |
| Current liabilities: | | | | | |
| Current maturities of notes payable | \$ 27,612 | \$ - | \$ - | \$ - | \$ 27,612 |
| Lines of credit | 163,108 | - | - | (163,108) | - |
| Accounts payable | 23,687 | 17,164 | 4,095 | (11,865) | 33,081 |
| Construction payable | 69,883 | - | - | - | 69,883 |
| Accrued payroll and related | 23,697 | - | - | - | 23,697 |
| Client construction funds escrows | - | 9,498 | - | - | 9,498 |
| Recoverable program funds | - | 469,172 | - | - | 469,172 |
| Recoverable grant | 40,000 | - | - | - | 40,000 |
| Refundable advances | 241,906 | - | - | - | 241,906 |
| Total current liabilities | <u>589,893</u> | <u>495,834</u> | <u>4,095</u> | <u>(174,973)</u> | <u>914,849</u> |
| Long-term liabilities: | | | | | |
| Notes payable, less current maturities | 1,254,683 | - | - | (214,978) | 1,039,705 |
| Forgivable loans - affordable housing | 5,638,645 | - | - | - | 5,638,645 |
| Total liabilities | <u>7,483,221</u> | <u>495,834</u> | <u>4,095</u> | <u>(389,951)</u> | <u>7,593,199</u> |
| Net assets: | | | | | |
| Investment in land held in trust | 3,990,599 | - | - | - | 3,990,599 |
| Board designated - operating reserve | 21,200 | 466,303 | - | - | 487,503 |
| Undesignated | 530,375 | 279,706 | 59,531 | (100) | 869,512 |
| Without donor restrictions | 4,542,174 | 746,009 | 59,531 | (100) | 5,347,614 |
| With donor restrictions | 528,832 | 2,488,915 | - | - | 3,017,747 |
| Total net assets | <u>5,071,006</u> | <u>3,234,924</u> | <u>59,531</u> | <u>(100)</u> | <u>8,365,361</u> |
| Total liabilities and net assets | <u>\$ 12,554,227</u> | <u>\$ 3,730,758</u> | <u>\$ 63,626</u> | <u>\$ (390,051)</u> | <u>\$ 15,958,560</u> |

See independent auditor's report.

CITY OF LAKES COMMUNITY LAND TRUST

CONSOLIDATING STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2020

| | City of Lakes Community Land Trust | Neighborhood Housing Services | City of Lakes Community Realty | Eliminations | Total |
|---|--|-------------------------------------|--------------------------------------|-----------------|---------------------|
| Support and revenue: | | | | | |
| Contributions | \$ 441,073 | \$ - | \$ - | \$ - | \$ 441,073 |
| Government grants - rehabilitation support | 623,419 | - | - | - | 623,419 |
| Government grants | 96,400 | 15,519 | - | - | 111,919 |
| Sales of property: | | | | | |
| Sales | 2,097,000 | 36,000 | - | (36,000) | 2,097,000 |
| Affordability gap subsidy | 86,824 | - | - | - | 86,824 |
| Construction subsidy | 58,669 | - | - | - | 58,669 |
| Loans forgiven | 348,138 | - | - | - | 348,138 |
| Cost of property sold | (2,306,610) | (36,000) | - | 36,000 | (2,306,610) |
| Marketing / developer fees | 59,052 | - | - | - | 59,052 |
| Loan interest | - | 44,546 | - | - | 44,546 |
| Recovery of deferred loans and grants | - | 10,500 | - | - | 10,500 |
| Service and origination fees | - | 6,479 | - | - | 6,479 |
| Land lease revenues | 69,265 | - | - | - | 69,265 |
| Building rents | 63,410 | - | - | - | 63,410 |
| Memberships | 19,679 | - | - | - | 19,679 |
| Commissions | - | - | 70,656 | - | 70,656 |
| Miscellaneous income | 41,611 | 151 | 5,602 | - | 47,364 |
| Interest income | 686 | 11,414 | - | - | 12,100 |
| Total support and revenue | 1,698,616 | 88,609 | 76,258 | - | 1,863,483 |
| Expenses: | | | | | |
| Program services | 1,333,121 | 144,214 | 45,055 | - | 1,522,390 |
| Management and general | 46,318 | - | - | - | 46,318 |
| Fundraising | 12,539 | - | - | - | 12,539 |
| Total expenses | 1,391,978 | 144,214 | 45,055 | - | 1,581,247 |
| Change in net assets before property acquisition transactions and other | 306,638 | (55,605) | 31,203 | - | 282,236 |
| Property acquisition transactions: | | | | | |
| Contributed land | 252,357 | - | - | - | 252,357 |
| Government acquisition grants | 521,100 | - | - | - | 521,100 |
| Homeownership acquisition subsidies | (358,855) | - | - | - | (358,855) |
| Change in net assets before revolving loan fund grants and recoverable program funds | 721,240 | (55,605) | 31,203 | - | 696,838 |
| Impairment loss on property | - | (42,580) | - | - | (42,580) |
| Adjustment to loan loss reserve | - | 163,416 | - | - | 163,416 |
| Loans reinstated | - | 17,227 | - | - | 17,227 |
| Program funds returned | - | (173,984) | - | - | (173,984) |
| Change in net assets | 721,240 | (91,526) | 31,203 | - | 660,917 |
| Net assets, beginning of year | 4,349,766 | 3,326,450 | 28,328 | (100) | 7,704,444 |
| Net assets, end of year | \$ 5,071,006 | \$ 3,234,924 | \$ 59,531 | \$ (100) | \$ 8,365,361 |

See independent auditor's report.