

**CITY OF LAKES COMMUNITY LAND TRUST**

**CONSOLIDATED FINANCIAL STATEMENTS WITH  
SUPPLEMENTARY INFORMATION**

**FOR THE YEAR ENDED  
DECEMBER 31, 2019**

# CITY OF LAKES COMMUNITY LAND TRUST

## CONSOLIDATED FINANCIAL STATEMENTS WITH SUPPLEMENTARY INFORMATION

For the Year Ended December 31, 2019  
(With Comparative Totals for 2018)

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# Mahoney Ulbrich Christiansen Russ P.A.

CERTIFIED PUBLIC ACCOUNTANTS

10 River Park Plaza, Suite 800 | Saint Paul, MN 55107

Phone: 651.227.6695 Fax: 651.227.9796 | [www.mucr.com](http://www.mucr.com)

## 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, 2019, 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, 2019, 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.

## ***Adoption of New Accounting Standards***

As discussed in Note 2 to the consolidated financial statements, in 2019, City of Lakes Community Land Trust adopted Accounting Standards Update (ASU) 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash* and ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. Our opinion is not modified with respect to those matters.

## ***Report on Summarized Comparative Information***

We have previously audited the financial statements of City of Lakes Community Land Trust as of December 31, 2018, and we expressed an unmodified opinion on those audited financial statements in our report dated June 25, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived. Beginning cash, cash equivalents, and restricted cash have been restated in connection with the adoption of ASU 2016-18 as discussed in Note 2.

## **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.

June 20, 2020

*Mahoney Ulbrich  
Christiansen Russ P.A.*

**CITY OF LAKES COMMUNITY LAND TRUST**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

December 31, 2019  
(With Comparative Totals for 2018)

	<u>2019</u>	<u>2018</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 691,083	\$ 635,361
Cash - recoverable program funds	295,188	562,885
Client advances	15,309	10,460
Accounts receivable	113,576	22,188
Contributions and grants receivable	494,846	1,025,149
Loans receivable, net, current portion	191,023	179,577
Prepaid expenses	21,456	20,011
Properties held for sale	<u>3,191,181</u>	<u>1,931,536</u>
Total current assets	5,013,662	4,387,167
Other assets:		
Loans receivable, net, long-term portion	1,238,882	1,618,496
Cash restricted for loan programs	1,234,933	875,033
Rental property, net	242,036	260,087
Office property and equipment, net	216,491	233,227
Land held in trust	<u>8,279,144</u>	<u>7,744,844</u>
Total assets	<u>\$ 16,225,148</u>	<u>\$ 15,118,854</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Current maturities of notes payable	\$ 942,122	\$ 583,905
Lines of credit	300,799	629,324
Accounts payable	34,743	59,476
Construction payable	172,996	66,400
Accrued payroll and related	31,249	22,538
Fiscal agency payable	156,219	-
Client construction funds escrows	16,266	104,144
Recoverable program funds	295,188	562,885
Recoverable grant	40,000	40,000
Refundable advances	<u>583,736</u>	<u>604,868</u>
Total current liabilities	2,573,318	2,673,540
Long-term liabilities:		
Notes payable, less current maturities	917,184	254,789
Forgivable loans - affordable housing	<u>5,030,202</u>	<u>4,514,578</u>
Total liabilities	<u>8,520,704</u>	<u>7,442,907</u>
Net assets:		
Without donor restrictions	4,316,979	4,142,353
With donor restrictions	<u>3,387,465</u>	<u>3,533,594</u>
Total net assets	<u>7,704,444</u>	<u>7,675,947</u>
Total liabilities and net assets	<u>\$ 16,225,148</u>	<u>\$ 15,118,854</u>

See accompanying notes to consolidated financial statements.

**CITY OF LAKES COMMUNITY LAND TRUST**

CONSOLIDATED STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2019  
(With Comparative Totals for 2018)

	2019			2018
	Without Donor Restrictions	With Donor Restrictions	Total	
Support and revenue:				
Contributions	\$ 261,116	\$ 357,292	\$ 618,408	\$ 843,550
Government grants - rehabilitation support	430,984	-	430,984	590,213
Government grants	23,512	-	23,512	136,592
Sale of property:				
Sales	1,335,518	-	1,335,518	605,500
Affordability gap subsidy	195,460	-	195,460	30,000
Construction subsidy	164,390	-	164,390	18,200
Loans forgiven	159,999	-	159,999	14,368
Cost of property sold	(1,852,241)	-	(1,852,241)	(624,542)
Marketing / developer fees	39,465	-	39,465	67,997
Loan interest	65,854	-	65,854	45,795
Recovery of deferred loans and grants	20,324	-	20,324	2,500
Service and origination fees	12,989	-	12,989	42,237
Land lease revenues	61,168	-	61,168	54,545
Building rents	49,934	-	49,934	48,926
Memberships	17,658	-	17,658	16,967
Commissions	48,273	-	48,273	26,842
Miscellaneous income	45,177	-	45,177	19,144
Interest income	15,184	-	15,184	15,579
Net assets released from restrictions	227,861	(227,861)	-	-
Total support and revenue	<u>1,322,625</u>	<u>129,431</u>	<u>1,452,056</u>	<u>1,954,413</u>
Expenses:				
Land trust	963,953	-	963,953	1,026,577
Lending	338,380	-	338,380	289,174
Realty	35,142	-	35,142	29,714
Total program services	<u>1,337,475</u>	<u>-</u>	<u>1,337,475</u>	<u>1,345,465</u>
Management and general	82,476	-	82,476	60,602
Fundraising	12,380	-	12,380	12,380
Total expenses	<u>1,432,331</u>	<u>-</u>	<u>1,432,331</u>	<u>1,418,447</u>
Change in net assets before property acquisition transactions and other	(109,706)	129,431	19,725	535,966
Property acquisition transactions:				
Contributed land	92,514	-	92,514	80,357
Government acquisition grants	344,340	-	344,340	675,046
Homeownership acquisition subsidies	(309,516)	-	(309,516)	(355,530)
Change in net assets before revolving loan fund grants, loan loss reserve adjustment, and recoverable program funds	17,632	129,431	147,063	935,839
Other:				
Government grants - revolving loan fund	-	20,642	20,642	128,276
Adjustment to loan loss reserve	156,994	(156,994)	-	-
Program funds returned	-	(139,208)	(139,208)	(562,885)
Change in net assets	174,626	(146,129)	28,497	501,230
Net assets, beginning of year	<u>4,142,353</u>	<u>3,533,594</u>	<u>7,675,947</u>	<u>7,174,717</u>
Net assets, end of year	<u>\$ 4,316,979</u>	<u>\$ 3,387,465</u>	<u>\$ 7,704,444</u>	<u>\$ 7,675,947</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, 2019  
(With Comparative Totals for 2018)

	2019							2018
	Program				Management and general	Fundraising	Total	
	Land Trust	Lending	Realty	Total				
Salaries	\$ 322,907	\$ 69,206	\$ -	\$ 392,113	\$ 10,813	\$ 7,209	\$ 410,135	\$ 361,164
Payroll taxes	25,931	5,654	-	31,585	902	601	33,088	30,058
Employee benefits	39,611	9,223	-	48,834	1,755	1,243	51,832	59,570
<b>Total salaries and related</b>	<b>388,449</b>	<b>84,083</b>	<b>-</b>	<b>472,532</b>	<b>13,470</b>	<b>9,053</b>	<b>495,055</b>	<b>450,792</b>
Professional fees	3,732	3,436	32,847	40,015	65,860	989	106,864	85,302
Office expenses	6,829	1,781	-	8,610	497	115	9,222	29,253
Postage and printing	6,174	1,220	48	7,442	158	105	7,705	5,643
Occupancy	34,076	3,111	-	37,187	510	336	38,033	36,290
Insurance	2,558	2,573	446	5,577	835	172	6,584	8,331
Travel	2,104	432	-	2,536	69	46	2,651	3,356
Equipment rental and maintenance	7,551	1,685	-	9,236	252	168	9,656	8,580
Dues and subscriptions	8,028	747	1,335	10,110	187	124	10,421	9,681
Outreach and development events	15,426	897	466	16,789	30	866	17,685	18,407
Deferred loans provided	-	23,512	-	23,512	-	-	23,512	136,592
Loan processing expenses	-	26,400	-	26,400	-	-	26,400	29,022
Bad debt	3,989	-	-	3,989	-	-	3,989	1,502
Provision for loan losses	-	184,911	-	184,911	-	-	184,911	5,279
Depreciation	32,182	3,269	-	35,451	534	356	36,341	36,210
Interest	11,782	323	-	12,105	74	50	12,229	12,031
Rehabilitation project costs	441,073	-	-	441,073	-	-	441,073	542,176
	963,953	338,380	35,142	1,337,475	82,476	12,380	1,432,331	1,418,447
Cost of property sold	1,707,416	144,825	-	1,852,241	-	-	1,852,241	624,542
Homeownership acquisition subsidies	309,516	-	-	309,516	-	-	309,516	355,530
	<u>\$ 2,980,885</u>	<u>\$ 483,205</u>	<u>\$ 35,142</u>	<u>\$ 3,499,232</u>	<u>\$ 82,476</u>	<u>\$ 12,380</u>	<u>\$ 3,594,088</u>	<u>\$ 2,398,519</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, 2019  
(With Comparative Totals for 2018)

	2019	2018
Cash flows from operating activities:		
Change in net assets	\$ 28,497	\$ 501,230
Adjustments to reconcile the change in net assets to net cash from operating activities:		
Depreciation expense	36,341	36,210
Contributed land	(92,514)	(80,357)
Grants for land acquisition	(164,865)	(424,605)
Grants for revolving loan fund	(20,642)	(128,276)
Government notes payable forgiven	-	(14,368)
Recoverable program funds loss	139,208	562,885
Provision for loan losses	184,911	5,279
Changes in operating assets and liabilities:		
Accounts and grants receivable	(91,388)	(78,032)
Contributions receivable	530,303	(625,064)
Prepaid expenses	(1,445)	47,844
Properties held for sale	(1,259,645)	(1,210,834)
Loans receivable, net	90,530	35,228
Accounts payable	(24,733)	(61,708)
Recoverable program funds, net	(406,905)	(997,894)
Construction payable	106,596	2,794
Fiscal agency payable	156,219	-
Accrued expenses and refundable advances	(12,421)	104,271
Net cash from operating activities	<u>(801,953)</u>	<u>(2,325,397)</u>
Cash flows from investing activities:		
Purchase of office property and equipment	(1,554)	-
Purchase of land held in trust	(343,215)	(577,005)
Net cash from investing activities	<u>(344,769)</u>	<u>(577,005)</u>
Cash flows from financing activities:		
Grants received for land acquisition	164,865	424,605
Grants for revolving loan fund	20,642	128,276
Line of credit activity, net	(328,525)	629,324
Proceeds from notes payable	1,636,634	428,676
Payments on notes payable	(377,319)	(112,263)
Proceeds from forgivable loans	178,350	152,400
Net cash from financing activities	<u>1,294,647</u>	<u>1,651,018</u>
Net increase (decrease) in cash, cash equivalents, and restricted cash	147,925	(1,251,384)
Cash, cash equivalents, and restricted cash - beginning of year	<u>2,073,279</u>	<u>3,324,663</u>
Cash, cash equivalents, and restricted cash - end of year	<u>\$ 2,221,204</u>	<u>\$ 2,073,279</u>
Reconciliation to the statement of financial position:		
Cash and cash equivalents	\$ 691,083	\$ 635,361
Cash - recoverable program funds	295,188	562,885
Cash restricted for loan programs	<u>1,234,933</u>	<u>875,033</u>
Total cash, cash equivalents, and restricted cash	<u>\$ 2,221,204</u>	<u>\$ 2,073,279</u>
Supplemental cash flow disclosures:		
Cash paid for interest expense	\$ 16,391	\$ 15,423
Noncash investing and financing activities:		
Notes payable forgiven	-	14,368
Land in trust acquired by transfer of forgivable loan	98,571	47,143
Properties acquired on loan foreclosures	-	191,612

See accompanying notes to consolidated financial statements.

# CITY OF LAKES COMMUNITY LAND TRUST

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2019  
(With Comparative Totals for 2018)

### 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, government grants, interest income, and fees for services. 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.

**Commercial Land Trust** - In February 2019, the City of Lakes Community Land Trust (CLCLT) Board of Directors endorsed the recommendation of 20+ Economic Development stakeholders to initiate a Commercial Land Trust Initiative (CLTI) program in Minneapolis, which included the intentional focus on North Minneapolis. Initial funding through the Jay and Rose Phillips Family Foundation and Twin Cities Local Initiatives Support Corporation (LISC) provided the initial funding for the program. Major milestones of the CLTI program in 2019 included:

(Continued)

# CITY OF LAKES COMMUNITY LAND TRUST

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2019  
(With Comparative Totals for 2018)

### 1. ORGANIZATION (Continued)

- Formed CLTI Advisory Committee
- Hired CLTI Program Director
- Engaged Consultants to guide Advisory Board through structural and legal considerations

The pilot is intended to demonstrate the need for, and viability of, using the community land trust mechanism to preserve the availability and affordability of community-owned commercial space. The mission 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. At this time, the CLTI program is a program of the CLCLT, with guidance of an Advisory Committee giving direction to the activities of the CLTI program. It is anticipated that the CLCLT, through the CLTI, will acquire its first commercial space in 2020.

**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.

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# CITY OF LAKES COMMUNITY LAND TRUST

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2019  
(With Comparative Totals for 2018)

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**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.

**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 determination of the allowance for losses on loans receivable, 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, 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 designates 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, 2019  
(With Comparative Totals for 2018)

### 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, 2018, 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 cash for the statement of cash flows.

(Continued)

# CITY OF LAKES COMMUNITY LAND TRUST

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2019  
(With Comparative Totals for 2018)

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

**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, 2019 and 2018.

**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 \$130,081 and \$122,332 at December 31, 2019 and 2018.

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 expenses. 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.

(Continued)

# CITY OF LAKES COMMUNITY LAND TRUST

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2019  
(With Comparative Totals for 2018)

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

**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.

**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 \$7,562 and \$18,123 of interest in 2019 and 2018.

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 \$82,733 and \$64,681 as of December 31, 2019 and 2018. 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.

(Continued)

# CITY OF LAKES COMMUNITY LAND TRUST

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2019  
(With Comparative Totals for 2018)

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

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.

**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 13.

**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.

(Continued)

# CITY OF LAKES COMMUNITY LAND TRUST

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2019  
(With Comparative Totals for 2018)

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

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. Contributions that are restricted by the donor are reported as increases in net assets with donor restrictions and transferred to net assets without donor restrictions when restrictions expire. 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 market value in the period received. The Land Trust received \$500 of donated rehabilitation materials in 2019, which is included in contributions on the statement of activities. No donated rehabilitation materials were recorded in 2018.

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 2018 or 2019.

(Continued)

# CITY OF LAKES COMMUNITY LAND TRUST

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2019  
(With Comparative Totals for 2018)

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

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

**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 on an equitable basis.

The expenses that are allocated include the following:

<b>Expense</b>	<b>Method of Allocation</b>
Salaries and benefits	Full-time equivalents
Office expenses	Full-time equivalents
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 2019 or 2018. 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, 2019  
(With Comparative Totals for 2018)

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

**Accounting Standards Adopted** - In 2019, the Organization adopted Accounting Standards Update (ASU) 2016-18 *Statement of Cash Flows (Topic 230): Restricted Cash* using the full retrospective approach. This ASU was issued to address diversity in reporting restricted cash on the statement of cash flows, largely due to the lack of guidance. After the adoption of ASU 2016-18, restricted cash and cash equivalents must be included with the beginning and ending cash and cash equivalents shown on the statement of cash flows. Before the change, restricted cash and cash equivalents were excluded. The change increased 2018 beginning of year cash, cash equivalents, and restricted cash reported on the statement of cash flows by \$2,346,160.

In 2019, the Organization adopted ASU 2018-08 *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The accounting change has been applied prospectively to the year ended December 31, 2019, and years going forward and had no impact on net assets previously reported. The presentation and disclosures of contributions have been enhanced in accordance with the standard.

In 2019, the Organization also adopted ASU 2014-09 *Revenue from Contracts with Customers*. This ASU did not have an effect on the Organization's financial statements.

### 3. CONTRIBUTIONS AND GRANTS RECEIVABLES

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

Contributions and grants receivable are due in 2020.

### 4. LOANS RECEIVABLE

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 and terminated. As a result, program income totaling \$440,099 was returned to the City of Minneapolis in 2019. See Note 11.

(Continued)

# CITY OF LAKES COMMUNITY LAND TRUST

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2019  
(With Comparative Totals for 2018)

### 4. **LOANS RECEIVABLE (Continued)**

Loans receivable, net, by portfolio are as follows:

	2019	2018
First mortgage loans	\$ 492,371	\$ 496,724
Contracts for deed	665,239	689,602
Home improvement loans	565,751	670,605
Due on sale loans	128,081	244,421
Total loans receivable	1,851,442	2,101,352
Less allowance for loan losses	(421,537)	(303,279)
Total loans receivable, net	1,429,905	1,798,073
Less loans receivable current portion	(191,023)	(179,577)
	\$ 1,238,882	\$ 1,618,496

Activity in the allowance for loan losses was as follows:

	2019	2018
Beginning balance	\$ 303,279	\$ 388,000
Loans charged off	(66,653)	(90,000)
Change in the provision for losses	184,911	5,279
Ending balance	\$ 421,537	\$ 303,279

(Continued)

**CITY OF LAKES COMMUNITY LAND TRUST**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2019  
(With Comparative Totals for 2018)

**4. LOANS RECEIVABLE (Continued)**

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
<b>Total</b>	<b>\$ 492,371</b>	<b>\$ 665,239</b>	<b>\$ 565,751</b>	<b>\$ 128,081</b>	<b>\$ 1,851,442</b>

A summary of the loans receivable aging by portfolio at December 31, 2018, follows:

	First mortgage loans	Contracts for deed	Home improvement loans	Due on sale loans	Total
Current	\$ 15,296	\$ 26,801	\$ 340,535	\$ -	\$ 382,632
0 - 90 days	159,817	557,987	122,440	-	840,244
Over 90 days	321,611	104,814	207,630	-	634,055
Due on sale	-	-	-	244,421	244,421
<b>Total</b>	<b>\$ 496,724</b>	<b>\$ 689,602</b>	<b>\$ 670,605</b>	<b>\$ 244,421</b>	<b>\$ 2,101,352</b>

Delinquent 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, 2019  
(With Comparative Totals for 2018)

#### 4. **LOANS RECEIVABLE (Continued)**

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	-	-	(66,653)	-	(66,653)
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>

A summary of the allowance for loan losses by portfolio at December 31, 2018, follows:

	First mortgage loans	Contracts for deed	Home improvement loans	Due on sale loans	Total
Beginning balance	\$ 124,000	\$ 138,000	\$ 108,000	\$ 18,000	\$ 388,000
Charged off	-	(90,000)	-	-	(90,000)
Loans returned to City	-	-	-	-	-
Provision for losses	(36,500)	(2,000)	61,779	(18,000)	5,279
Ending balance	<u>\$ 87,500</u>	<u>\$ 46,000</u>	<u>\$ 169,779</u>	<u>\$ -</u>	<u>\$ 303,279</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, 2019  
(With Comparative Totals for 2018)

#### 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, 2019 follows:

	First mortgage loans	Contracts for deed	Home improve- ment loans	Due on sale loans	Total
Unpaid principal	\$ 492,371	\$ 665,239	\$ 565,751	\$ 128,081	\$ 1,851,442
Allowance for loan losses	(82,880)	(236,255)	(90,233)	(12,169)	(421,537)
Net balance	409,491	428,984	475,518	115,912	1,429,905
Number of impaired loans	5	6	23	18	
Average recorded investment	81,898	71,497	20,675	6,440	

NHS services loans with a balance of \$1,508,780 as of December 31, 2019. 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 2019, 6 Land Trust properties were developed and sold to qualified buyers and 22 houses were in the process of rehabilitation as of December 31, 2019. During 2018, 3 Land Trust properties were developed and sold to qualified buyers, and 15 properties were in the process of rehabilitation at December 31, 2018.

(Continued)

## CITY OF LAKES COMMUNITY LAND TRUST

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2019  
(With Comparative Totals for 2018)

#### 6. FORECLOSED RESIDENTIAL REAL ESTATE

At December 31, 2019 and 2018, NHS had residential real estate properties acquired through foreclosure with carrying amounts of \$169,006 (2 properties) and \$265,845 (3 properties) which are included in properties held for sale. Those amounts include all 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, 2019. NHS and the Land Trust are working to redevelop and market the properties. One property was sold in 2019 and none were sold in 2018.

#### 7. OFFICE PROPERTY AND EQUIPMENT

Office property and equipment consists of the following:

	2019	2018	Estimated useful life - years
Land and land improvements	\$ 26,760	\$ 26,760	10
Office building and improvements	328,833	328,833	5 - 20
Equipment	12,994	11,441	3 - 5
	368,587	367,034	
Less accumulated depreciation	(152,096)	(133,807)	
	\$ 216,491	\$ 233,227	

#### 8. LAND HELD IN TRUST

Land held in trust consists of the following:

	2019	2018
House / townhouse lots (257 - 2019 and 233 - 2018)	\$ 6,825,058	\$ 6,290,758
Condominium units (24 - 2019 and 24 - 2018)	1,454,086	1,454,086
Warranty deed homes (12 - 2019 and 15 - 2018)	-	-
	\$ 8,279,144	\$ 7,744,844

(Continued)

# CITY OF LAKES COMMUNITY LAND TRUST

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2019  
(With Comparative Totals for 2018)

### 8. LAND HELD IN TRUST (Continued)

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:

	2019	2018
Bremer Bank	\$ -	\$ 200,008
John Larsen Foundation	-	100,000
Land Bank Twin Cities	300,799	329,316
	<u>\$ 300,799</u>	<u>\$ 629,324</u>

**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, 2020. Secured by all assets of the Land Trust.

**John Larsen Foundation** - Unsecured line of credit for up to \$100,000 with interest at 3.5%. The line of credit was for program purposes and matured on April 15, 2019. The line of credit was not renewed.

**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 will mature 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, 2019  
(With Comparative Totals for 2018)

### 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 has closed out various contracts with NHS and NHS has returned loans and cash related to funds that were closed. In 2018, NHS returned \$997,894 of recoverable program funds that had been previously accrued as recoverable program funds on the statement of financial position.

In addition, during 2018, the City informed NHS that cash held by NHS for certain loan funds must be returned to the City in 2019. NHS accrued \$562,885 for the estimated amount of cash to be returned in 2019, and the cash was reported as cash – recoverable program funds on the statement of financial position.

Recoverable program funds activity in 2019 is as follows:

Recoverable program funds, beginning balance	\$	562,865
Less: cash returned to the City of Minneapolis		(440,099)
Less: adjustment for funds accrued in 2018 that were retained by NHS		(122,766)
Plus: 2019 accrual for funds to be returned		295,188
Recoverable program funds, ending balance	\$	<u>295,188</u>

In addition, in 2019 the City returned 3 additional loans to NHS totaling \$33,194 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, 2019  
(With Comparative Totals for 2018)

#### 12. NOTES PAYABLE

Notes payable are as follows at December 31:

	2019	2018
Office building:		
Propel Nonprofits - CPED	\$ 15,599	\$ 23,481
Propel Nonprofits	20,146	29,824
John Larsen Foundation	-	100,000
Rental property:		
Bremer Bank	218,990	227,951
Houses:		
Pohlad Foundation	690,000	-
Northeast Bank	229,348	-
City of Minneapolis	685,223	457,438
	1,859,306	838,694
Less current maturities	(942,122)	(583,905)
	\$ 917,184	\$ 254,789

**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.

**John Larsen Foundation** - The Land Trust had an unsecured \$100,000 loan for its office building which was repaid in 2019. The loan required monthly payments of interest at 2.5%.

(Continued)

# CITY OF LAKES COMMUNITY LAND TRUST

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2019  
(With Comparative Totals for 2018)

### 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 bears interest at 4.43%. Monthly principal and interest payments of \$1,581 are due through April 27, 2021, 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 mature in September and October of 2020 or when the houses are sold. Interest on the notes is at 1% over the bank's base rate (5.75% at December 31, 2019), and the notes are secured by two houses.

**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 \$280,816 and \$14,368 in 2019 and 2018. 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, 2019  
(With Comparative Totals for 2018)

#### 12. NOTES PAYABLE (Continued)

Maturities of notes payable are as follows:

2020	\$	256,899
2021		227,184
2022		-
2023		-
2024		690,000
Due on sale		<u>685,223</u>
		<u>\$ 1,859,306</u>

#### 13. FORGIVABLE LOANS

Forgivable loans consist of the following:

	<u>2019</u>	<u>2018</u>
Hennepin County HRA	\$ 3,578,117	\$ 3,321,195
Minnesota Housing Finance Agency	293,950	35,248
City of Minneapolis	<u>1,158,135</u>	<u>1,158,135</u>
	<u>\$ 5,030,202</u>	<u>\$ 4,514,578</u>

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, 2019  
(With Comparative Totals for 2018)

#### 14. COMMITTED GRANTS AND CONTRACTS

A summary of significant committed grants and contracts in progress at December 31, 2019, follows:

	Contract expiration date	Committed contract amount	Revenue through December 31, 2019	Unobligated contract funding
MN Housing CRV 10-2016-02 (Grant Contract)	6/4/20	\$ 937,500	\$ 827,776	\$ 109,724
MN Housing CRV 10-2016-03 (Grant Contract)	5/19/20	140,000	70,000	70,000
MN Housing CRV 10-2016-04 (Grant Contract)	6/4/20	525,000	120,250	404,750
MN Housing 10-2017-02 (Bond Contract)	2/1/21	400,000	229,250	170,750
MN Housing 10-2017-02 (Grant Contract)	2/1/21	900,000	473,245	426,755
MN Housing 11-2018-05 (Grant Contract)	10/1/20	1,100,000	200,280	899,720
MN Housing 11-2018-05 (Bond Contract)	10/1/20	400,000	-	400,000
MN Housing 11-2018-06 (Grant Contract)	10/1/20	150,000	-	150,000
MN Housing 11-2018-06 (Bond Contract)	10/1/20	60,000	-	60,000

(Continued)

# CITY OF LAKES COMMUNITY LAND TRUST

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2019  
(With Comparative Totals for 2018)

### 15. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following:

	2019	2018
<b>Subject to expenditure for specified purpose:</b>		
Land held in trust acquisitions	\$ 1,116	\$ 1,116
Commercial land trust research	169,810	186,671
Development of contract for deed properties	300,000	300,000
Preventing property tax forfeitures	216,667	-
Loan programs - cash	1,234,933	875,033
	1,922,526	1,362,820
 <b>Subject to expenditure for specified purpose when a future event occurs:</b>		
Loan programs – properties held for sale	169,006	265,845
Loan programs – loans receivable, net of client construction funds escrow	1,155,308	1,693,929
	1,324,314	1,959,774
 <b>Subject to the passage of time:</b>		
General operating – time restricted	140,625	211,000
	140,625	211,000
 Total net assets with donor restrictions	 \$ 3,387,465	 \$ 3,533,594

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, 2019  
(With Comparative Totals for 2018)

### 16. NET ASSETS RELEASED FROM DONOR RESTRICTIONS

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

	<u>2019</u>	<u>2018</u>
General operating – time restricted	\$ 211,000	\$ 67,500
Commercial land trust research	16,861	13,329
Land held in trust acquisitions	-	26,458
Loans receivable adjustments	156,994	23,209
Recoverable program funds	139,208	562,885
Government loan programs	-	9,496
	<u>                    </u>	<u>                    </u>
Net assets released from donor restrictions	<u>\$ 524,063</u>	<u>\$ 702,877</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.

### 17. BOARD DESIGNATED NET ASSETS

City of Lakes Community Land Trust's governing board has designated, from net assets without donor restrictions, \$481,488 of net assets for the following purposes as of December 31, 2019. 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.

CLCLT operating reserve	\$ 21,200
NHS loan funds without donor restrictions	<u>460,288</u>
	<u>                    </u>
Total board-designated net assets	<u>\$ 481,488</u>

(Continued)

# CITY OF LAKES COMMUNITY LAND TRUST

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2019  
(With Comparative Totals for 2018)

### 18. 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:

	2019	2018
Cash	\$ 691,083	\$ 635,361
Cash – recoverable program funds	295,188	562,885
Client advances	15,309	10,460
Accounts receivable	113,576	22,188
Contributions and grants receivable	494,846	1,025,149
 Total financial assets	 1,610,002	 2,256,043
 Amounts unavailable for general expenditures within one year:		
Recoverable program funds	(295,188)	(562,885)
Contributions receivable restricted by donors for specific purposes	-	(400,000)
Cash restricted by donors for specific purposes	(69,811)	(90,671)
Cash restricted for fiscal agency	(156,219)	-
Total amounts unavailable for general expenditures within one year	(521,218)	(1,053,556)
 Board designated amounts unavailable to management without the Board’s approval:		
Board designated operating reserve cash	(170,112)	(94,055)
 Total financial assets available within one year after Board designations	 \$ 918,672	 \$ 1,108,432

(Continued)

# CITY OF LAKES COMMUNITY LAND TRUST

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2019  
(With Comparative Totals for 2018)

### 18. 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 \$750,000, 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.

### 19. 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 \$12,128 in 2019 and \$10,234 in 2018.

### 20. CONCENTRATIONS

During 2019, two organizations individually provided 42% and 29% of contributions support. During 2018, two organizations individually provided 60% and 24% of contributions support.

Minnesota Housing Finance Agency provided substantially all government grant revenues during 2019 and 2018.

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, 2019 cash balances exceeded federally insured limits by approximately \$537,443. Cash balances did not exceed the federally insured limit at December 31, 2018.

(Continued)

# CITY OF LAKES COMMUNITY LAND TRUST

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2019  
(With Comparative Totals for 2018)

### 21. **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).

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.

### 22. **SUBSEQUENT EVENTS**

#### **COVID-19 Outbreak**

On March 11, 2020, the World Health Organization declared the outbreak of a coronavirus (COVID-19) pandemic. The operations of the Land Trust and NHS may be significantly impacted by the pandemic and could result in material changes in their ability to provide services in its program areas. The extent of the impact of COVID-19 on programs and operations will depend on certain developments, including the duration and spread of the outbreak, impact on our donors and funders, impact on homeowners served, loan clients, employees, and vendors, all of which are uncertain and cannot be predicted. Other financial impacts could occur. The Land Trust and NHS collect monthly lease fees, mortgage payments, and repurchase properties in the event of foreclosure. The effects of COVID-19 create additional uncertainties in homeowners' ability to be successful in homeownership. At this point, the extent to which COVID-19 may impact its financial condition or results of operations is uncertain.

(Continued)

# CITY OF LAKES COMMUNITY LAND TRUST

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2019  
(With Comparative Totals for 2018)

### 22. **SUBSEQUENT EVENTS (Continued)**

The Land Trust was successful in seeking and receiving SBA PPP first round funding in the amount of approximately \$96,400 in April 2020. The Land Trust had an opening for a staff position in February 2020 and was beginning the hiring process when the COVID-19 pandemic emerged. Hiring for that position has been postponed. Additionally, an NHS part-time staff had long planned retirement for May 2020. The Land Trust will use existing staff to fill that position. The Land Trust will continue to operate with fewer staff until greater certainty about the future is evident. The Land Trust is surveying clients every three weeks to gauge the impact of the COVID-19 pandemic on their personal and financial situations. The Land Trust is also prioritizing the completion of many homes under construction or rehabilitation as there is potential uncertainty of the homeownership market throughout 2020. The Land Trust has offered six month's forbearance to all loan clients.

Management has evaluated subsequent events through June 20, 2020, 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, 2019

	City of Lakes Community Land Trust	Neighborhood Housing Services	City of Lakes Community Realty	Eliminations	Total
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 402,700	\$ 260,660	\$ 27,723	\$ -	\$ 691,083
Cash - recoverable program funds	-	295,188	-	-	295,188
Client advances	-	15,309	-	-	15,309
Accounts receivable	124,085	247,670	-	(258,179)	113,576
Contributions and grants receivable	494,846	-	-	-	494,846
Loans receivable, net, current portion	-	191,023	-	-	191,023
Prepaid expenses	16,252	4,099	1,105	-	21,456
Properties held for sale	3,022,175	169,006	-	-	3,191,181
Total current assets	<u>4,060,058</u>	<u>1,182,955</u>	<u>28,828</u>	<u>(258,179)</u>	<u>5,013,662</u>
Other assets:					
Loans receivable, net, long-term portion	-	1,238,882	-	-	1,238,882
Cash restricted for loan programs	-	1,234,933	-	-	1,234,933
Investment in LLC	100	-	-	(100)	-
Rental property, net	242,036	-	-	-	242,036
Office property and equipment, net	216,491	-	-	-	216,491
Land held in trust	8,279,144	-	-	-	8,279,144
Total assets	<u>\$ 12,797,829</u>	<u>\$ 3,656,770</u>	<u>\$ 28,828</u>	<u>\$ (258,279)</u>	<u>\$ 16,225,148</u>
LIABILITIES AND NET ASSETS					
Current liabilities:					
Current maturities of notes payable	\$ 942,122	\$ -	\$ -	\$ -	\$ 942,122
Lines of credit	350,799	-	-	(50,000)	300,799
Accounts payable	25,967	18,866	500	(10,590)	34,743
Construction payable	172,996	-	-	-	172,996
Accrued payroll and related	31,249	-	-	-	31,249
Fiscal agency payable	156,219	-	-	-	156,219
Client construction funds escrows	-	16,266	-	-	16,266
Recoverable program funds	-	295,188	-	-	295,188
Recoverable grant	40,000	-	-	-	40,000
Refundable advances	583,736	-	-	-	583,736
Total current liabilities	<u>2,303,088</u>	<u>330,320</u>	<u>500</u>	<u>(60,590)</u>	<u>2,573,318</u>
Long-term liabilities:					
Notes payable, less current maturities	1,114,773	-	-	(197,589)	917,184
Forgivable loans - affordable housing	5,030,202	-	-	-	5,030,202
Total liabilities	<u>8,448,063</u>	<u>330,320</u>	<u>500</u>	<u>(258,179)</u>	<u>8,520,704</u>
Net assets:					
Without donor restrictions	3,521,548	767,203	28,328	(100)	4,316,979
With donor restrictions	828,218	2,559,247	-	-	3,387,465
Total net assets	<u>4,349,766</u>	<u>3,326,450</u>	<u>28,328</u>	<u>(100)</u>	<u>7,704,444</u>
Total liabilities and net assets	<u>\$ 12,797,829</u>	<u>\$ 3,656,770</u>	<u>\$ 28,828</u>	<u>\$ (258,279)</u>	<u>\$ 16,225,148</u>

See independent auditor's report.

**CITY OF LAKES COMMUNITY LAND TRUST**

CONSOLIDATING STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2019

	City of Lakes Community Land Trust	Neighborhood Housing Services	City of Lakes Community Realty	Eliminations	Total
Support and revenue:					
Contributions	\$ 618,408	\$ -	\$ -	\$ -	\$ 618,408
Government grants - rehabilitation support	430,984	-	-	-	430,984
Government grants	-	23,512	-	-	23,512
Sales of property:					
Sales	1,235,518	100,000	-	-	1,335,518
Affordability gap subsidy	195,460	-	-	-	195,460
Construction subsidy	164,390	-	-	-	164,390
Loans forgiven	159,999	-	-	-	159,999
Cost of property sold	(1,707,416)	(144,825)	-	-	(1,852,241)
Marketing / developer fees	39,465	-	-	-	39,465
Loan interest	-	65,854	-	-	65,854
Recovery of deferred loans and grants	-	20,324	-	-	20,324
Service and origination fees	-	12,989	-	-	12,989
Land lease revenues	61,168	-	-	-	61,168
Building rents	49,934	-	-	-	49,934
Memberships	17,658	-	-	-	17,658
Commissions	-	-	48,273	-	48,273
Miscellaneous income	47,081	6,952	2,999	(11,855)	45,177
Interest income	772	14,412	-	-	15,184
<b>Total support and revenue</b>	<b>1,313,421</b>	<b>99,218</b>	<b>51,272</b>	<b>(11,855)</b>	<b>1,452,056</b>
Expenses:					
Program services	963,953	338,380	35,142	-	1,337,475
Management and general	82,476	11,855	-	(11,855)	82,476
Fundraising	12,380	-	-	-	12,380
<b>Total expenses</b>	<b>1,058,809</b>	<b>350,235</b>	<b>35,142</b>	<b>(11,855)</b>	<b>1,432,331</b>
Change in net assets before property acquisition transactions and other	254,612	(251,017)	16,130	-	19,725
Property acquisition transactions:					
Contributed land	92,514	-	-	-	92,514
Government acquisition grants	344,340	-	-	-	344,340
Homeownership acquisition subsidies	(309,516)	-	-	-	(309,516)
Change in net assets before revolving loan fund grants and recoverable program funds	381,950	(251,017)	16,130	-	147,063
Government grants - revolving loan fund	-	20,642	-	-	20,642
Program funds returned	-	(139,208)	-	-	(139,208)
Change in net assets	381,950	(369,583)	16,130	-	28,497
Net assets, beginning of year	3,967,816	3,696,033	12,198	(100)	7,675,947
Net assets, end of year	\$ 4,349,766	\$ 3,326,450	\$ 28,328	\$ (100)	\$ 7,704,444

See independent auditor's report.