

CITY OF LAKES COMMUNITY LAND TRUST

**CONSOLIDATED FINANCIAL STATEMENTS WITH
SUPPLEMENTARY INFORMATION**

**FOR THE YEAR ENDED
DECEMBER 31, 2018**

CITY OF LAKES COMMUNITY LAND TRUST

CONSOLIDATED FINANCIAL STATEMENTS WITH SUPPLEMENTARY INFORMATION

For the Year Ended December 31, 2018

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1
Consolidated Financial Statements:	
Consolidated Statement of Financial Position	3
Consolidated Statement of Activities	4
Consolidated Statement of Functional Expenses	5
Consolidated Statement of Cash Flows	6
Notes to Consolidated Financial Statements	7
Supplementary Consolidating Information:	
Consolidating Statement of Financial Position	31
Consolidating Statement of Activities	32



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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, 2018, 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.

(Continued)

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2018, 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.

Change in Accounting Principle

As discussed in Note 2 to the consolidated financial statements, City of Lakes Community Land Trust has adopted Accounting Standards Update No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to that matter.

Report on Summarized Comparative Information

We have previously audited the City of Lakes Community Land Trust's 2017 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated July 6, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived, except for the items affected by the restatement noted below.

As discussed in Note 20 to the financial statements, the accompanying 2017 financial statements have been restated to correct net assets with donor restrictions and net assets without donor restrictions. As part of our audit of the 2018 financial statements we also audited the adjustments that were applied to restate the 2017 financial statements. In our opinion, such adjustments are appropriate and have been properly applied.

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 31 and 32 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 25, 2019

*Mahoney Ulbich
Christiansen Russ P.A.*

CITY OF LAKES COMMUNITY LAND TRUST

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

December 31, 2018
(With Comparative Totals for 2017)

	2018	2017
ASSETS		
Current assets:		
Cash	\$ 635,361	\$ 978,503
Cash - recoverable program funds	562,885	997,894
Client advances	10,460	15,734
Accounts and grants receivable	407,837	329,805
Contributions receivable	639,500	14,436
Loans receivable, net, current portion	179,577	95,000
Prepaid expenses	20,011	67,855
Properties held for sale	1,931,536	529,090
Total current assets	<u>4,387,167</u>	<u>3,028,317</u>
Other assets:		
Loans receivable, net, long-term portion	1,618,496	1,825,774
Cash restricted for loan programs	875,033	1,348,266
Rental property, net	260,087	278,137
Office property and equipment, net	233,227	251,387
Land held in trust	<u>7,744,844</u>	<u>7,040,339</u>
Total assets	<u>\$ 15,118,854</u>	<u>\$ 13,772,220</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Current maturities of notes payable	\$ 583,905	\$ 255,404
Lines of credit	629,324	-
Accounts payable	59,476	121,184
Construction payable	66,400	63,606
Accrued payroll and related	22,538	23,428
Client construction funds escrows	104,144	-
Recoverable program funds	562,885	997,894
Recoverable grant	40,000	40,000
Deferred revenue	640,115	534,954
Total current liabilities	<u>2,708,787</u>	<u>2,036,470</u>
Long-term liabilities:		
Notes payable, less current maturities	254,789	281,245
Forgivable loans - affordable housing	4,479,331	4,279,788
Total liabilities	<u>7,442,907</u>	<u>6,597,503</u>
Net assets:		
Without donor restrictions	4,142,353	3,782,022
With donor restrictions	3,533,594	3,392,695
Total net assets	<u>7,675,947</u>	<u>7,174,717</u>
Total liabilities and net assets	<u>\$ 15,118,854</u>	<u>\$ 13,772,220</u>

See accompanying notes to consolidated financial statements.

CITY OF LAKES COMMUNITY LAND TRUST

CONSOLIDATED STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2018

(With Comparative Totals for 2017)

	2018		Total	2017
	Without Donor Restrictions	With Donor Restrictions		
Support and revenue:				
Support:				
Contributions	\$ 128,050	\$ 715,500	\$ 843,550	\$ 293,508
Contributed materials and services	-	-	-	8,123
Total support	<u>128,050</u>	<u>715,500</u>	<u>843,550</u>	<u>301,631</u>
Government grants - rehabilitation	590,213	-	590,213	358,502
Government grants	136,592	-	136,592	-
Sale of property:				
Sales	605,500	-	605,500	445,000
Affordability gap subsidy	30,000	-	30,000	27,078
Construction subsidy	18,200	-	18,200	15,119
Loans forgiven	14,368	-	14,368	53,017
Cost of property sold	(624,542)	-	(624,542)	(515,752)
Marketing / developer fees	67,997	-	67,997	35,615
Loan interest	45,795	-	45,795	81,975
Recovery of deferred loans and grants	2,500	-	2,500	35,400
Service and origination fees	42,237	-	42,237	7,092
Land lease revenues	54,545	-	54,545	48,183
Building rents	48,926	-	48,926	50,700
Memberships	16,967	-	16,967	15,897
Commissions	26,842	-	26,842	40,638
Miscellaneous income	19,144	-	19,144	36,585
Interest income	15,579	-	15,579	5,905
Net assets released from restrictions	113,534	(113,534)	-	-
Total support and revenue	<u>1,352,447</u>	<u>601,966</u>	<u>1,954,413</u>	<u>1,042,585</u>
Expenses:				
Land trust	1,026,577	-	1,026,577	845,160
Lending	289,174	-	289,174	140,228
Realty	29,714	-	29,714	33,517
Total program services	<u>1,345,465</u>	<u>-</u>	<u>1,345,465</u>	<u>1,018,905</u>
Management and general	60,602	-	60,602	81,241
Fundraising	12,380	-	12,380	4,960
Total expenses	<u>1,418,447</u>	<u>-</u>	<u>1,418,447</u>	<u>1,105,106</u>
Change in net assets before property acquisition transactions and other	(66,000)	601,966	535,966	(62,521)
Property acquisition transactions:				
Contributed land	80,357	-	80,357	89,457
Government acquisition grants	675,046	-	675,046	527,163
Net assets released from restrictions	26,458	(26,458)	-	-
Homeownership acquisition subsidies	<u>(355,530)</u>	<u>-</u>	<u>(355,530)</u>	<u>(391,187)</u>
Change in net assets before revolving loan fund grants, loan loss reserve adjustment, and recoverable program funds	360,331	575,508	935,839	162,912
Other:				
Government grants - revolving loan fund	-	128,276	128,276	-
Adjustment to loan loss reserve	-	-	-	126,605
Recoverable program funds	<u>-</u>	<u>(562,885)</u>	<u>(562,885)</u>	<u>381,645</u>
Change in net assets	360,331	140,899	501,230	671,162
Net assets, beginning of year	<u>3,782,022</u>	<u>3,392,695</u>	<u>7,174,717</u>	<u>6,503,555</u>
Net assets, end of year	<u>\$ 4,142,353</u>	<u>\$ 3,533,594</u>	<u>\$ 7,675,947</u>	<u>\$ 7,174,717</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, 2018
(With Comparative Totals for 2017)

	2018							2017
	Program				Management		Total	
	Land Trust	Lending	Realty	Total	and general	Fundraising		
Salaries	\$ 279,265	\$ 60,365	\$ 3,512	\$ 343,142	\$ 10,813	\$ 7,209	\$ 361,164	\$ 320,076
Payroll taxes	23,252	5,002	301	28,555	902	601	30,058	22,919
Employee benefits	45,947	10,027	598	56,572	1,755	1,243	59,570	55,377
Total salaries and benefits	348,464	75,394	4,411	428,269	13,470	9,053	450,792	398,372
Professional fees	12,763	5,506	22,058	40,327	43,986	989	85,302	110,993
Partner fees	100	-	-	100	-	-	100	30,000
Office expenses	4,624	23,535	340	28,499	497	115	29,111	12,078
Postage and printing	4,432	923	25	5,380	158	105	5,643	7,006
Occupancy	32,611	2,689	144	35,444	510	336	36,290	25,911
Insurance	3,521	3,047	756	7,324	835	172	8,331	8,756
Travel	2,806	414	21	3,241	69	46	3,356	6,921
Equipment rental and maintenance	6,618	1,410	132	8,160	252	168	8,580	9,894
Dues and subscriptions	6,926	1,102	1,342	9,370	187	124	9,681	9,471
Programs and events	16,361	868	282	17,511	30	866	18,407	11,883
Deferred loans provided	-	136,592	-	136,592	-	-	136,592	-
Loan processing expenses	-	29,022	-	29,022	-	-	29,022	2,981
Bad debt	1,502	-	-	1,502	-	-	1,502	1,252
Provision for loan losses	-	5,279	-	5,279	-	-	5,279	-
Depreciation	32,162	2,980	178	35,320	534	356	36,210	38,064
Interest	11,469	413	25	11,907	74	50	12,031	17,708
Marketing	42	-	-	42	-	-	42	-
Rehabilitation project costs	542,176	-	-	542,176	-	-	542,176	413,816
	1,026,577	289,174	29,714	1,345,465	60,602	12,380	1,418,447	1,105,106
Cost of property sold	624,542	-	-	624,542	-	-	624,542	515,752
Homeownership acquisition subsidies	355,530	-	-	355,530	-	-	355,530	391,187
	\$ 2,006,649	\$ 289,174	\$ 29,714	\$ 2,325,537	\$ 60,602	\$ 12,380	\$ 2,398,519	\$ 2,012,045

See accompanying notes to consolidated financial statements.

CITY OF LAKES COMMUNITY LAND TRUST

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2018

(With Comparative Totals for 2017)

Increase (Decrease) in Cash

	2018	2017
Cash flows from operating activities:		
Change in net assets	\$ 501,230	\$ 671,162
Adjustments to reconcile the change in net assets to net cash from operating activities:		
Depreciation expense	36,210	38,064
Contributed land	(80,357)	(89,457)
Grants for land acquisition	(424,605)	(200,116)
Grants for revolving loan fund	(128,276)	-
Notes payable forgiven	(14,368)	(53,017)
Recoverable program funds (gain) loss	562,885	(381,645)
Provision for loan losses (recoveries)	5,279	(126,605)
Changes in operating assets and liabilities:		
Accounts and grants receivable	(78,032)	80,189
Contributions receivable	(625,064)	70,589
Prepaid expenses	47,844	(52,174)
Properties held for sale	(1,210,834)	(304,520)
Loans receivable, net	35,228	280,308
Accounts payable	(61,708)	31,127
Recoverable program funds	(997,894)	(50,084)
Construction payable	2,794	(33,580)
Accrued expenses and refundable advances	104,271	139,147
Net cash from operating activities	(2,325,397)	19,388
Cash flows from investing activities:		
Change in cash - recoverable program funds	435,009	54,699
Change in cash restricted for loan programs, net	473,233	(105,508)
Purchase of office property and equipment	-	(1,883)
Purchase of land	(577,005)	(360,694)
Net cash from investing activities	331,237	(413,386)
Cash flows from financing activities:		
Grants received for land acquisition	424,605	200,116
Grants for revolving loan fund	128,276	-
Proceeds from lines of credit	629,324	-
Proceeds from notes payable	428,676	159,957
Payments on notes payable	(112,263)	(100,131)
Proceeds from forgivable loans	152,400	160,578
Net cash from financing activities	1,651,018	420,520
Net increase (decrease) in cash	(343,142)	26,522
Cash, beginning of year	978,503	951,981
Cash, end of year	\$ 635,361	\$ 978,503
Supplemental cash flow disclosures:		
Cash paid for interest expense	\$ 15,423	\$ 17,708
Noncash investing and financing activities:		
Notes payable forgiven	14,368	53,017
Land in trust acquired by transfer of forgivable loan	47,143	184,153
Loans transferred, net	-	454,533
Properties acquired on loan foreclosures	191,612	28,581

See accompanying notes to consolidated financial statements.

CITY OF LAKES COMMUNITY LAND TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2018
(With Comparative Totals for 2017)

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.

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.

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.

(Continued)

CITY OF LAKES COMMUNITY LAND TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2018
(With Comparative Totals for 2017)

1. ORGANIZATION (Continued)

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. Should NHS terminate operations, government funded assets would be returned to the respective government agency.

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.

Change in Accounting Principle - On August 18, 2016, FASB issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Land Trust implemented ASU 2016-14 and adjusted the presentation in these consolidated financial statements accordingly. The Land Trust changed the presentation of its net asset classes and expanded the footnote disclosures as required by the ASU. The ASU has been applied retrospectively to 2017, however, there was no change in net assets without donor restrictions or net asset with donor restrictions.

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.

(Continued)

CITY OF LAKES COMMUNITY LAND TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2018
(With Comparative Totals for 2017)

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

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.

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 (a) the financial statements for the year ended December 31, 2017, from which the summarized information was derived, and (b) Note 20 for information on the restatement of the 2017 financial statements.

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.

(Continued)

CITY OF LAKES COMMUNITY LAND TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2018
(With Comparative Totals for 2017)

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

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.

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 not considered a cash equivalent for the statement of cash flows.

Credit Risk - 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, 2018 and 2017 cash balances exceeded federally insured limits by approximately \$- and \$25,000, respectively.

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, 2018 and 2017.

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 \$122,332 at December 31, 2018.

(Continued)

CITY OF LAKES COMMUNITY LAND TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2018
(With Comparative Totals for 2017)

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

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 - 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.

Property 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 resale 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 fair 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 \$18,123 of interest in 2018. No interest was capitalized in 2017.

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

(Continued)

CITY OF LAKES COMMUNITY LAND TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2018
(With Comparative Totals for 2017)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 charged to income as incurred; significant renewals or betterments are capitalized. Accumulated depreciation totaled \$64,681 and \$46,631 as of December 31, 2018 and 2017. 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 charged to income 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.

Land Held in Trust -

- 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.

(Continued)

CITY OF LAKES COMMUNITY LAND TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2018
(With Comparative Totals for 2017)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Forgivable Loans - Some government grants are in the form of forgivable loans. These grants are recorded as liabilities until the earlier of expiration of the term or repayment. See Note 12.

Government Grants and Contracts - Except for revolving loan funds discussed below, government grants are generally considered exchange transactions and are recorded as revenue when earned. Revenue is earned when eligible expenditures are incurred. Funds received but not yet earned are recorded as deferred revenue.

Government grants from the Minnesota Housing Finance Agency for acquisition/rehabilitation of properties are in the form of deferred loans. These deferred loans are recognized as revenue when the property is sold because management expects to comply with the terms of the agreement.

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 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, or the condition is 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.

(Continued)

CITY OF LAKES COMMUNITY LAND TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2018
(With Comparative Totals for 2017)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Donated Materials and Services - Donated materials are recorded as contributions at their estimated fair market value in the period received. The Land Trust received \$5,308 of donated rehabilitation materials in 2017. 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 received \$2,815 of contributed services in 2017. No contributed services were received in 2018.

Marketing / Developer Fees - Marketing / developer fees represent fees recorded 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:

Expense	Method of Allocation
Salaries and benefits	Full-time equivalents
Professional fees	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

(Continued)

CITY OF LAKES COMMUNITY LAND TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2018
(With Comparative Totals for 2017)

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

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 2018 or 2017. Management believes the Land Trust and its subsidiaries do not have any uncertain tax positions.

3. **RECEIVABLES**

Substantially all accounts and grants receivable are due from government agencies for property acquisition and rehabilitation.

Contributions receivable are due in 2019.

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, loans with a principal balance of \$621,907 and an allowance of \$167,374 were returned to the City of Minneapolis in 2017. See Note 19.

(Continued)

CITY OF LAKES COMMUNITY LAND TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2018
(With Comparative Totals for 2017)

4. **LOANS RECEIVABLE (Continued)**

Loans receivable, net, by portfolio are as follows:

	2018	2017
First mortgage loans	\$ 496,724	\$ 728,795
Contracts for deed	689,602	812,861
Home improvement loans	670,605	657,100
Due on sale loans	244,421	110,018
Total loans receivable	2,101,352	2,308,774
Less allowance for loan losses	(303,279)	(388,000)
Total loans receivable, net	1,798,073	1,920,774
Less loans receivable current portion	(179,577)	(95,000)
Loans receivable, net, long-term portion	\$ 1,618,496	\$ 1,825,774

Activity in the allowance for loan losses was as follows:

	2018	2017
Beginning balance	\$ 388,000	\$ 708,254
Loans charged off	(90,000)	(26,275)
Adjustment for loans returned to City	-	(167,374)
Change in the provision for losses	5,279	(126,605)
Ending balance	\$ 303,279	\$ 388,000

(Continued)

CITY OF LAKES COMMUNITY LAND TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2018
(With Comparative Totals for 2017)

4. **LOANS RECEIVABLE (Continued)**

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
Total	<u>\$496,724</u>	<u>\$ 689,602</u>	<u>\$ 670,605</u>	<u>\$ 244,421</u>	<u>\$ 2,101,352</u>

A summary of the loans receivable aging by portfolio at December 31, 2017, follows:

	First mortgage loans	Contracts for deed	Home improvement loans	Due on sale loans	Total
Current	\$ 161,133	\$ 133,690	\$ 297,618	\$ -	\$ 592,441
0 - 90 days	209,491	282,600	99,722	-	591,813
Over 90 days	358,171	396,571	259,760	-	1,014,502
Due on sale	-	-	-	110,018	110,018
Total	<u>\$ 728,795</u>	<u>\$ 812,861</u>	<u>\$ 657,100</u>	<u>\$ 110,018</u>	<u>\$ 2,308,774</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)
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>

(Continued)

CITY OF LAKES COMMUNITY LAND TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2018
(With Comparative Totals for 2017)

4. **LOANS RECEIVABLE (Continued)**

A summary of the allowance for loan losses by portfolio at December 31, 2017, follows:

	First mortgage loans	Contracts for deed	Home improvement loans	Due on sale loans	Total
Beginning balance	\$ 434,251	\$ 68,212	\$ 203,791	\$ 2,000	\$ 708,254
Charged off Loans	-	-	(26,275)	-	(26,275)
Loans returned to City	(76,992)	-	(90,382)	-	(167,374)
Provision for losses	(233,259)	69,788	20,866	16,000	(126,605)
Ending balance	<u>\$ 124,000</u>	<u>\$ 138,000</u>	<u>\$ 108,000</u>	<u>\$ 18,000</u>	<u>\$ 388,000</u>

Beginning on January 1, 2018, 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. Previously, allowances were established for each portfolio using the following percentages based on prior collection history and the value of underlying properties. During 2017, the allowance was 17% for each loan portfolio. NHS based the 2017 allowance percentages on prior collection history and the current value of properties.

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, 2018
(With Comparative Totals for 2017)

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, 2018 follows:

	First mortgage loans	Contracts for deed	Home improvement loans	Total
Total unpaid principal	\$ 409,274	\$ 689,602	\$ 423,042	\$ 1,521,918
Total allowance for credit losses	(87,500)	(46,000)	(169,779)	((303,279))
Net balance	321,774	643,602	253,263	1,218,639
Number of impaired loans	3	6	35	44
Average recorded investment in impaired loans	309,182	659,232	220,393	1,188,807
Interest income recognized	17,491	-	6,958	24,449

NHS services loans with a balance of \$392,709 as of December 31, 2018. 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 2018, 3 Land Trust properties were developed and sold to qualified buyers and 15 houses were in the process of rehabilitation as of December 31, 2018. At December 31, 2017, eight properties were in the process of rehabilitation.

(Continued)

CITY OF LAKES COMMUNITY LAND TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2018
(With Comparative Totals for 2017)

6. FORECLOSED RESIDENTIAL REAL ESTATE

At December 31, 2018 and 2017, NHS had residential real estate properties acquired through foreclosure with carrying amounts of \$265,845 (3 properties) and \$28,581 (1 property) 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, 2018. NHS and the Land Trust are working to redevelop and market the properties. NHS did not sell any properties acquired via foreclosure in either 2018 or 2017.

7. OFFICE PROPERTY AND EQUIPMENT

Office property and equipment consists of the following:

	2018	2017	Estimated useful life - years
Land and land improvements	\$ 26,760	\$ 26,760	10
Office building and improvements	328,833	328,833	5 - 20
Equipment	11,441	11,441	3 - 5
	367,034	367,034	
Less accumulated depreciation	(133,807)	(115,647)	
	\$ 233,227	\$ 251,387	

8. LAND HELD IN TRUST

Land held in trust consists of the following:

	2018	2017
House / townhouse lots (215 - 2018 and 196 - 2017)	\$ 6,290,758	\$ 5,586,253
Condominium units (24 - 2018 and 24 - 2017)	1,454,086	1,454,086
Warranty deed homes (33 - 2018 and 33 - 2017)	-	-
	\$ 7,744,844	\$ 7,040,339

(Continued)

CITY OF LAKES COMMUNITY LAND TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2018
(With Comparative Totals for 2017)

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 lines of credit are as follows at December 31:

	2018	2017
Bremer Bank	\$ 200,008	\$ -
John Larsen Foundation	100,000	-
Land Bank Twin Cities	329,316	-
	<u>\$ 629,324</u>	<u>\$ -</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, 2019. 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 is for program purposes and matures on April 15, 2019. The line of credit was repaid in 2019.

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, 2020. 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, 2018
(With Comparative Totals for 2017)

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. NOTES PAYABLE

Notes payable are as follows at December 31:

	2018	2017
Office building:		
Propel Nonprofits - CPED	\$ 23,481	\$ 31,205
Propel Nonprofits	29,824	38,977
John Larsen Foundation	100,000	100,000
Rental property:		
Bremer Bank	227,951	236,467
Houses:		
City of Minneapolis - HOW	457,438	130,000
	838,694	536,649
Less current maturities	(583,905)	(255,404)
	\$ 254,789	\$ 281,245

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, 2018
(With Comparative Totals for 2017)

11. NOTES PAYABLE (Continued)

John Larsen Foundation - The Land Trust received a \$100,000 loan for its office building. The loan requires monthly payments of interest at 2.5%. The principal and remaining interest are due on April 15, 2019. The loan is unsecured and was repaid in April 2019.

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 beginning May 27, 2016, 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.

City of Minneapolis - HOW - The Land Trust entered into a housing acquisition/rehabilitation loan agreement, without interest, to purchase, rehabilitate, and sell foreclosed houses as affordable housing to qualified households. The principal amount is due upon the sale of the houses. \$14,368 and \$53,017 of total City loans were forgiven in 2018 and 2017. Secured by the related properties.

Maturities of the notes payable are as follows:

2019	\$	583,905
2020		27,551
2021		<u>227,238</u>
	\$	<u><u>838,694</u></u>

(Continued)

CITY OF LAKES COMMUNITY LAND TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2018
(With Comparative Totals for 2017)

12. FORGIVABLE LOANS

Forgivable loans consist of the following:

	<u>2018</u>	<u>2017</u>
Hennepin County HRA	\$ 3,321,196	\$ 3,121,653
City of Minneapolis	<u>1,158,135</u>	<u>1,158,135</u>
	<u>\$ 4,479,331</u>	<u>\$ 4,279,788</u>

The Land trust has entered into forgivable loan agreements with the Hennepin County Housing and Redevelopment Authority and the City of Minneapolis. 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, 2018
(With Comparative Totals for 2017)

13. **NET ASSETS WITH DONOR RESTRICTIONS**

Net assets with donor restrictions consisted of the following:

	2018	2017
Subject to expenditure for specified purpose:		
Land held in trust acquisitions	\$ 1,116	\$ 27,574
Commercial land trust research	186,671	-
Development of contract for deed properties	300,000	-
Loan programs - cash	875,033	1,348,266
	1,362,820	1,375,840
Subject to expenditure for specified purpose when a future event occurs:		
Loan programs – properties held for sale	265,845	28,581
Loan programs – loans receivable, net of client construction funds escrow	1,693,929	1,920,774
	1,959,774	1,949,355
Subject to the passage of time:		
General operating – time restricted for 2019	211,000	67,500
	211,000	67,500
 Total net assets with donor restrictions	 \$ 3,533,594	 \$ 3,392,695

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, 2018
(With Comparative Totals for 2017)

14. NET ASSETS RELEASED FROM DONOR RESTRICTIONS

Net assets released from donor restrictions are as follows:

	<u>2018</u>	<u>2017</u>
General operating – time restricted	\$ 67,500	\$ 69,025
Commercial land trust research	13,329	37,500
Land held in trust acquisitions	26,458	77,426
Loans receivable adjustments	23,209	-
Recoverable program funds	562,885	-
Government loan programs	9,496	103,418
Net assets released from donor restrictions	<u>\$ 702,877</u>	<u>\$ 287,369</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.

15. 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.

(Continued)

CITY OF LAKES COMMUNITY LAND TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2018
(With Comparative Totals for 2017)

15. LIQUIDITY AND AVAILABILITY OF RESOURCES (Continued)

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

Cash	\$	635,361
Cash – recoverable program funds		562,885
Client advances		10,460
Accounts and grants receivable		407,837
Contributions receivable		<u>639,500</u>
Total financial assets available within one year		<u>2,256,043</u>
Less:		
Amounts unavailable for general expenditures within one year:		
Recoverable program funds		(562,885)
Contributions receivable restricted by donors for specific purposes		(400,000)
Cash restricted by donors for specific purposes		<u>(90,671)</u>
Total amounts unavailable for general expenditures within one year		<u>(1,053,556)</u>
Board designated amounts unavailable to management without the Board’s approval:		
Board designated operating reserve		<u>(21,200)</u>
Total financial assets available within one year after Board designations	\$	<u><u>1,181,287</u></u>

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.

(Continued)

CITY OF LAKES COMMUNITY LAND TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2018
(With Comparative Totals for 2017)

15. LIQUIDITY AND AVAILABILITY OF RESOURCES (Continued)

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.

16. BOARD DESIGNATED NET ASSETS

City of Lakes Community Land Trust's governing board has designated, from net assets without donor restrictions, \$511,916 of net assets for the following purposes as of December 31, 2018. The CLCLT 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>490,716</u>
Total board-designated net assets	\$	<u>511,916</u>

17. 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 \$10,234 in 2018 and \$9,460 in 2017.

18. CONCENTRATIONS

During 2018, two organizations individually provided 60% and 24% of contributions support. During 2017, two organizations individually provided 36% and 22% of contributions support.

Minnesota Housing Finance Agency and the City of Minneapolis provided substantially all government grant revenues during 2018 and 2017.

(Continued)

CITY OF LAKES COMMUNITY LAND TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2018
(With Comparative Totals for 2017)

18. **CONCENTRATIONS (Continued)**

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

19. **RECOVERABLE PROGRAM FUNDS**

During 2015, the City of Minneapolis (the City) informed NHS that specified funding contracts would be closed out and terminated, requiring the return of related cash and loans receivable. At December 31, 2016, a liability of \$1,884,155 was recorded for the estimated total recoverable program funds. This liability was assumed in 2015 when the Land Trust acquired NHS.

During 2017, \$50,084 of cash and \$621,907 of loans receivable were returned. The allowance for loan losses related to the transferred loans was \$167,374. In addition, NHS and the City reached an agreement for NHS to return an additional \$997,894 of cash and to retain \$214,271 of the City's loan portfolio. \$997,894 was returned to the City in April 2018. NHS recorded adjustments totaling \$381,645 in 2017 for the difference between the net book value of the amounts returned and the initial accrual for estimated recoverable program funds.

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 has been reported as cash – recoverable program funds on the statement of financial position.

20. **RESTATEMENT OF 2017 FINANCIAL STATEMENTS**

During 2018, management discovered that an NHS loan fund included in net assets with donor restrictions should have been reported as net assets without donor restrictions. The restrictions were released prior to 2017 but were not reflected in the financial statements. The restatement reduced net assets with donor restrictions by \$320,717 and increased net assets without donor restrictions by the same amount. In addition, cash was increased by \$320,717 and cash restricted for loan programs was decreased by the same amount. There was no change in total assets, total liabilities, total net assets, or the change in net assets.

(Continued)

CITY OF LAKES COMMUNITY LAND TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2018
(With Comparative Totals for 2017)

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**

In June 2019, the Land Trust purchased six properties secured by a \$690,000 mortgage with the Pohlada Family Foundation. The properties will be sold to their respective tenants subject to contracts for deed.

Management has evaluated subsequent events through June 25, 2019, 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, 2018

	City of Lakes Community Land Trust	Neighborhood Housing Services	City of Lakes Community Realty	Eliminations	Total
ASSETS					
Current assets:					
Cash	\$ 39,275	\$ 584,330	\$ 11,756	\$ -	\$ 635,361
Cash - recoverable program funds	-	562,885	-	-	562,885
Client advances	-	10,460	-	-	10,460
Accounts and grants receivable	416,019	308,998	-	(317,180)	407,837
Contributions receivable	639,500	-	-	-	639,500
Loans receivable, net, current portion	-	179,577	-	-	179,577
Prepaid expenses	15,630	3,448	933	-	20,011
Properties held for sale	1,665,691	265,845	-	-	1,931,536
Total current assets	<u>2,776,115</u>	<u>1,915,543</u>	<u>12,689</u>	<u>(317,180)</u>	<u>4,387,167</u>
Other assets:					
Loans receivable, net, long-term portion	-	1,618,496	-	-	1,618,496
Cash restricted for loan programs	-	875,033	-	-	875,033
Investment in LLC	100	-	-	(100)	-
Rental property, net	260,087	-	-	-	260,087
Office property and equipment, net	233,227	-	-	-	233,227
Land held in trust	7,744,844	-	-	-	7,744,844
Total assets	<u>\$ 11,014,373</u>	<u>\$ 4,409,072</u>	<u>\$ 12,689</u>	<u>\$ (317,280)</u>	<u>\$ 15,118,854</u>
LIABILITIES AND NET ASSETS					
Current liabilities:					
Current maturities of notes payable	\$ 583,905	\$ -	\$ -	\$ -	\$ 583,905
Lines of credit	629,324	-	-	-	629,324
Accounts payable	21,820	46,010	491	(8,845)	59,476
Construction payable	66,400	-	-	-	66,400
Accrued payroll and related	22,538	-	-	-	22,538
Client construction funds escrows	-	104,144	-	-	104,144
Recoverable program funds	-	562,885	-	-	562,885
Recoverable grant	40,000	-	-	-	40,000
Deferred revenue	640,115	-	-	-	640,115
Total current liabilities	<u>2,004,102</u>	<u>713,039</u>	<u>491</u>	<u>(8,845)</u>	<u>2,708,787</u>
Long-term liabilities:					
Notes payable, less current maturities	563,124	-	-	(308,335)	254,789
Forgivable loans - affordable housing	4,479,331	-	-	-	4,479,331
Total liabilities	<u>7,046,557</u>	<u>713,039</u>	<u>491</u>	<u>(317,180)</u>	<u>7,442,907</u>
Net assets:					
Without donor restrictions	3,269,029	861,226	12,198	(100)	4,142,353
With donor restrictions	698,787	2,834,807	-	-	3,533,594
Total net assets	<u>3,967,816</u>	<u>3,696,033</u>	<u>12,198</u>	<u>(100)</u>	<u>7,675,947</u>
Total liabilities and net assets	<u>\$ 11,014,373</u>	<u>\$ 4,409,072</u>	<u>\$ 12,689</u>	<u>\$ (317,280)</u>	<u>\$ 15,118,854</u>

See independent auditor's report.

CITY OF LAKES COMMUNITY LAND TRUST

CONSOLIDATING STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2018

	City of Lakes Community Land Trust	Neighborhood Housing Services	City of Lakes Community Realty	Eliminations	Total
Support and revenue:					
Support:					
Contributions	\$ 843,550	\$ -	\$ -	\$ -	\$ 843,550
Total support	<u>843,550</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>843,550</u>
Revenue:					
Government grants - rehabilitation	590,213	-	-	-	590,213
Government grants	-	136,592	-	-	136,592
Sales of property:					
Sales	605,500	-	-	-	605,500
Affordability gap subsidy	30,000	-	-	-	30,000
Construction subsidy	18,200	-	-	-	18,200
Loans forgiven	14,368	-	-	-	14,368
Cost of property sold	(624,542)	-	-	-	(624,542)
Marketing / developer fees	67,997	-	-	-	67,997
Loan interest	-	45,795	-	-	45,795
Recovery of deferred loans and grants	-	2,500	-	-	2,500
Service and origination fees	-	42,237	-	-	42,237
Land lease revenues	54,545	-	-	-	54,545
Building rents	48,926	-	-	-	48,926
Memberships	16,967	-	-	-	16,967
Commissions	-	-	26,842	-	26,842
Miscellaneous income	8,265	15,645	2,599	(7,365)	19,144
Interest income	151	15,428	-	-	15,579
Total support and revenue	<u>1,674,140</u>	<u>258,197</u>	<u>29,441</u>	<u>(7,365)</u>	<u>1,954,413</u>
Expenses:					
Program services	1,026,577	289,174	29,714	-	1,345,465
Management and general	60,602	7,365	-	(7,365)	60,602
Fundraising	12,380	-	-	-	12,380
Total expenses	<u>1,099,559</u>	<u>296,539</u>	<u>29,714</u>	<u>(7,365)</u>	<u>1,418,447</u>
Change in net assets before property acquisition transactions and other	574,581	(38,342)	(273)	-	535,966
Property acquisition transactions:					
Contributed land	80,357	-	-	-	80,357
Government acquisition grants	675,046	-	-	-	675,046
Homeownership acquisition subsidies	<u>(355,530)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(355,530)</u>
Change in net assets before revolving loan fund grants and recoverable program funds	974,454	(38,342)	(273)	-	935,839
Government grants - revolving loan fund	-	128,276	-	-	128,276
Recoverable program funds	<u>-</u>	<u>(562,885)</u>	<u>-</u>	<u>-</u>	<u>(562,885)</u>
Change in net assets	974,454	(472,951)	(273)	-	501,230
Net assets, beginning of year	<u>2,993,362</u>	<u>4,168,984</u>	<u>12,471</u>	<u>(100)</u>	<u>7,174,717</u>
Net assets, end of year	<u>\$ 3,967,816</u>	<u>\$ 3,696,033</u>	<u>\$ 12,198</u>	<u>\$ (100)</u>	<u>\$ 7,675,947</u>

See independent auditor's report.