HABITAT FOR HUMANITY OF MINNESOTA, INC.

Minneapolis, Minnesota

FINANCIAL STATEMENTS
Including Independent Auditors' Report

As of and for the Years Ended June 30, 2018 and 2017

HABITAT FOR HUMANITY OF MINNESOTA, INC.

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BAKER TILLY

INDEPENDENT AUDITORS' REPORT

To The Board of Directors
Habitat for Humanity of Minnesota, Inc.
Minneapolis, Minnesota

We have audited the accompanying financial statements of Habitat for Humanity of Minnesota, Inc. (the "Organization"), which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Baker Tilly Virchow Krause, LLP

Minneapolis, Minnesota
November 7, 2018

HABITAT FOR HUMANITY OF MINNESOTA, INC.

STATEMENTS OF FINANCIAL POSITION
As of June 30, 2018 and 2017

	2018	2017
ASSETS		
Cash and cash equivalents	$ 902,384	$ 682,252
Cash and cash equivalents - restricted	1,348,276	1,330,921
Short-term investments	-	129,218
Grants and interest receivable	43,395	52,684
Prepaid expenses and other assets	33,824	39,035
Property and equipment, net	2,824	6,624
Loans receivable	39,135,110	40,297,999
Allowance for loan losses	(58,700)	(60,500)
Unamortized discount on loans receivable	(8,142,773)	(8,556,021)
Net loans receivable	30,933,637	31,681,478
TOTAL ASSETS	$ 33,264,340	$ 33,922,212
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	$ 14,934	$ 11,676
Assistance to affiliates payable	118,686	137,489
Accrued payroll expenses	66,243	64,835
Accrued vacation	5,773	7,820
Deferred fee income	364,399	365,924
Other accrued expenses	104,933	106,120
CRV recoverable grants	8,010	65,396
Revolving loans payable	21,157,927	21,157,927
Notes payable	17,125,183	18,207,540
Unamortized discount on revolving loan and notes payable	(8,440,171)	(8,916,667)
Net loans and notes payable	29,842,939	30,448,800
Deposits on loans receivable from affiliates	59,336	59,336
Total Liabilities	30,585,253	31,267,396
NET ASSETS		
Unrestricted	2,679,087	2,654,816
TOTAL LIABILITIES AND NET ASSETS	$ 33,264,340	$ 33,922,212

See accompanying notes to financial statements.

HABITAT FOR HUMANITY OF MINNESOTA, INC.

STATEMENTS OF ACTIVITIES
For the Years Ended June 30, 2018 and 2017

	2018			2017		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
OPERATING SUPPORT AND REVENUE						
Contributions	$ 258,893	$ -	$ 258,893	$ 184,178	$ -	$ 184,178
CRV grant revenue	314,536	-	314,536	411,000	-	411,000
Program fees	207,897	-	207,897	230,738	-	230,738
Interest income	548,010	-	548,010	551,904	-	551,904
Habitat 500 revenue	78,170	-	78,170	68,525	-	68,525
Bike to build revenue	9,045	-	9,045	-	-	-
Net assets released from restrictions	-	-	-	450,000	(450,000)	-
Total Support and Other Revenue	1,416,551	-	1,416,551	1,896,345	(450,000)	1,446,345
OPERATING EXPENSES						
Program expenses	1,175,216	-	1,175,216	1,400,046	-	1,400,046
Support services						
Management and general	101,955	-	101,955	91,814	-	91,814
Fundraising	51,861	-	51,861	46,030	-	46,030
Total Support Services	153,816	-	153,816	137,844	-	137,844
Total Expense	1,329,032	-	1,329,032	1,537,890	-	1,537,890
CHANGE IN NET ASSETS - OPERATING	87,519	-	87,519	358,455	(450,000)	(91,545)
NONOPERATING						
Amortization of discounts on loans receivable	846,597	-	846,597	669,678	-	669,678
Discounts on loans receivable originated	-	-	-	(1,540)	-	(1,540)
Amortization of discounts on revolving loan and notes payable	(909,845)	-	(909,845)	(736,458)	-	(736,458)
CHANGE IN NET ASSETS - NONOPERATING	(63,248)	-	(63,248)	(68,320)	-	(68,320)
TOTAL CHANGE IN NET ASSETS	24,271	-	24,271	290,135	(450,000)	(159,865)
NET ASSETS - Beginning of Year	2,654,816	-	2,654,816	2,364,681	450,000	2,814,681
NET ASSETS - End of Year	$ 2,679,087	$ -	$ 2,679,087	$ 2,654,816	$ -	$ 2,654,816

See accompanying notes to financial statements.

HABITAT FOR HUMANITY OF MINNESOTA, INC.

STATEMENTS OF FUNCTIONAL EXPENSES
For the Years Ended June 30, 2018 and 2017

	2018				2017			
	Program	Management and General	Fundraising	Total	Program	Management and General	Fundraising	Total
Operating Expenses								
Payroll expenses	$ 369,864	$ 33,000	$ 43,187	$ 446,051	$ 402,996	$ 40,077	$ 42,538	$ 485,611
Office expenses	43,256	10,283	3,048	56,587	50,571	13,050	2,571	66,192
Professional services	42,717	8,615	3,590	54,922	60,960	14,021	688	75,669
Meetings and training	15,189	3,381	721	19,291	9,252	4,322	179	13,753
Interest expense	364,949	-	-	364,949	429,910	-	-	429,910
Travel	3,992	1,960	324	6,276	8,804	7,467	2	16,273
Insurance	2,232	6,444	-	8,676	1,557	5,017	-	6,574
Equipment expense	146	31	745	922	1,589	1,601	17	3,207
Loan trustee fees	16,100	-	-	16,100	16,097	-	-	16,097
Advertising	86	185	146	417	200	60	35	295
Administrative	1,069	238	100	1,407	1,810	2,000	-	3,810
Other	1,080	22,202	-	23,282	-	1,093	-	1,093
Tithe	-	13,616	-	13,616	-	-	-	-
CRV grant expense	314,536	-	-	314,536	411,000	-	-	411,000
Construction grants to affiliates	-	-	-	-	6,800	-	-	6,800
Provisions for loan losses	-	(1,800)	-	(1,800)	(1,500)	-	-	(1,500)
Depreciation	-	3,800	-	3,800	-	3,106	-	3,106
Total Operating	1,175,216	101,955	51,861	1,329,032	1,400,046	91,814	46,030	1,537,890
Non-operating Expenses								
Discounts on loans receivable originated	-	-	-	-	1,540	-	-	1,540
Amortization of discounts on revolving loan and notes payable	909,845	-	-	909,845	736,458	-	-	736,458
Total Nonoperating	909,845	-	-	909,845	737,998	-	-	737,998
Total Expenses	$ 2,085,061	$ 101,955	$ 51,861	$ 2,238,877	$ 2,138,044	$ 91,814	$ 46,030	$ 2,275,888
Percentage based on operating expenses	88%	8%	4%	100%	91%	6%	3%	100%
Percentage based on total expenses	93%	5%	2%	100%	94%	4%	2%	100%

See accompanying notes to financial statements.

HABITAT FOR HUMANITY OF MINNESOTA, INC.

STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 24,271	$ (159,865)
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	3,800	3,106
Discounts on loans receivable originated	-	1,540
Amortization of discounts on loans receivable	(846,597)	(669,678)
Amortization of discounts on revolving loan and notes payable	909,845	736,458
Provision for loan losses	(1,800)	(1,500)
Changes in operating assets and liabilities		
Grants and interest receivable	9,289	484,098
Prepaid expenses and other assets	5,211	(9,668)
Accounts payable	3,258	19,815
Assistance to affiliates payable	(18,803)	9,759
Accrued payroll expenses	1,408	(18,575)
Accrued vacation	(2,047)	(196)
Deferred fee income	(1,525)	(25,327)
CRV recoverable grants	(57,386)	65,396
Other accrued expenses	(1,187)	(14,248)
Net Cash Flows From Operating Activities	27,737	421,115
CASH FLOWS FROM INVESTING ACTIVITIES		
Changes in restricted cash and cash equivalents	(17,355)	(585,102)
Collections on loans receivable	2,797,646	2,236,232
Proceeds on maturity of short-term investments	129,218	258,087
Purchase of equipment	-	(2,082)
Loans receivable issued	(1,634,757)	(1,201,217)
Net Cash Flows From Investing Activities	1,274,752	705,918
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on notes payable	(1,082,357)	(964,202)
Net Cash Flows From Financing Activities	(1,082,357)	(964,202)
Change in Cash and Cash Equivalents	220,132	162,831
CASH AND CASH EQUIVALENTS - Beginning of Year	682,252	519,421
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 902,384	$ 682,252
Supplemental cash flow disclosures		
Cash paid for interest	$ 363,149	$ 428,902

See accompanying notes to financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Habitat for Humanity of Minnesota, Inc. (the "Organization") is a Minnesota not-for-profit organization that was incorporated in 1997. The Organization was created by the Habitat for Humanity affiliates in the State of Minnesota to help them be successful in achieving their goal of eliminating poverty housing from their service areas. At June 30, 2018, there were 31 affiliates providing housing solutions for approximately 300 families per year. The Organization manages programs which provide a broad range of support to the affiliates, primarily in the areas of resource development, training, and building awareness. The main program provided by the Organization is a lending program designed to provide Habitat affiliates with a form of secondary market for their 0% interest long-term mortgage loans made to Habitat homeowners. Through the Organization's lending program, Habitat affiliates can generate more resources to build homes by converting their mortgages into cash, which provides them the opportunity to build more homes. Through the Organization's programs, Minnesota Habitat affiliates have quadrupled the number of families served annually since 1997. The Organization was certified by the U.S. Department of Treasury on December 7, 2000 as a Community Development Financial Institution (CDFI).

Net Assets

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

Unrestricted Net Assets - Resources over which the board of directors (the Board) has discretionary control.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Organization pursuant to those stipulations. Restricted contributions received in the same year in which the restrictions are met are recorded as an increase in unrestricted support at the time of receipt. The Organization has no temporarily restricted net assets as of June 30, 2018 and 2017.

Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, the donors of such assets permit the Organization to use all or part of the income earned on the assets. The Organization has no permanently restricted net assets as of June 30, 2018 and 2017.

Non-Operating Activities

Non-operating activities include all non-cash activities relating to the discounting of loans payable and receivable.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and Cash Equivalents

The Organization defines cash equivalents as highly liquid, short-term investments with a maturity at the date of acquisition of three months or less. The Organization maintains its cash and cash equivalents in money market mutual funds and bank deposit accounts at high credit quality financial institutions. The bank balances, at times, may exceed federally insured limits. Restricted cash is primarily related to loan proceeds, repayment and reserve accounts and amounts collected from the Habitat 500 bike ride to be distributed to affiliates.

Short-Term Investments

Short-term investments are recorded at cost and consist of certificates of deposit with initial maturities of greater than three months. Due to their short term nature, cost approximates fair value.

Loans Receivable

Loans receivable, which are issued to affiliates at below market interest rates, are initially recorded at fair market value by discounting the receivable balance. The discount is then amortized into income over the life of the loan receivable using the effective interest method.

The Organization accounts for uncollectible receivables by the reserve method based on management's best estimate and past history of collections. Receivables are assessed individually for collectability based on the surrounding facts and circumstances and management's past history of collections. Additional interest is not accrued on past due accounts. When all collection efforts have been exhausted, the accounts are written off.

Assistance to Affiliate Payable

The Organization operates an annual bike ride primarily for the benefit of its affiliates and other Habitat organizations. Participants directly identify the recipient of their contributions and all amounts collected for others are recorded as assistance to affiliates payable and are disbursed regularly.

Deferred Fee Income

The Organization charges an origination fee on new loans receivable. The fee income is amortized over the term of the related loan in a method consistent with the amortization of the discount on the loans.

Property and Equipment

Property and equipment are stated at cost, if purchased, or fair market value at the date of the gift, if donated. All acquisitions of property and equipment in excess of $1,500 and all expenditures for improvements and betterments that materially prolong the useful lives of assets are capitalized and depreciated on a straight line basis over a range of 3-5 years. Maintenance, repairs, and minor improvements are expensed as incurred. When assets are retired or otherwise disposed of, their costs and related accumulated depreciation are removed from the accounts and resulting gains or losses are included in income.

Discount on Notes Payable

Notes payable, which are issued to the Organization at below market interest rates, are initially recorded at fair market value by discounting the payable balance. The discount is then amortized into expense over the life of the note payable using the effective interest method.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contributions

Contributions are recognized when received in the form of a pledge or cash. Promises to give are recorded at net realizable value. Conditional promises to give are not included as support until such time as the conditions are substantially met.

Contributed Services

Contributions of services are recognized if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Contributed services that do not meet these criteria are not recognized. The Organization receives services donated by volunteers, which do not meet the above criteria for recognition in the financial statements.

Functional Allocation of Expense

Salaries and related expenses are allocated based on job descriptions and the best estimates of management. Expenses, other than salaries and related expenses which are not directly identifiable by program or support service, are allocated based on management's consideration of actual expenses charged to each category, as well as by estimates developed by personnel regarding time spent in each category.

Tax-Exempt Status

The Organization has received notification that it qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and corresponding provisions of State law and, accordingly, is not subject to federal or state income taxes. However, any unrelated business income may be subject to taxation. The Organization has been classified as a publicly supported charitable organization under Section 509(A)(1) of the Code and charitable contributions are deductible by donors.

The Organization follows the accounting standards for contingencies in evaluating uncertain tax positions. This guidance prescribes recognition threshold principles for the financial statement recognition of tax positions taken or expected to be taken on a tax return that are not certain to be realized. No liability has been recognized by the Organization for uncertain tax positions as of June 30, 2018 and 2017. The Organization's tax returns are subject to review and examination by federal and state authorities.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers.* This new guidance outlines a single comprehensive model for entities to use in accounting for revenue from contracts with customers. ASU 2014-09 is effective date for fiscal years beginning after December 15, 2018 (fiscal year 2020), with early adoption permitted. The Organization is assessing the impact this new standard will have on its financial statements.

In February 2016, FASB issued ASU No. 2016-02, *Leases*. ASU No. 2016-02 was issued to increase transparency and comparability among entities. Lessees will need to recognize nearly all lease transactions (other than leases that meet the definition of a short-term lease) on the statement of financial position as a lease liability and a right-of-use asset (as defined). Lessor accounting under the new guidance will be similar to the current model. ASU No. 2016-02 is effective for fiscal years beginning after December 15, 2019 (fiscal year 2021). Early application is permitted. Upon adoption, lessees and lessors will be required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach, which includes a number of optional practical expedients that entities may elect to apply. The Organization is assessing the impact this standard will have on its financial statements.

In August 2016, FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities.* The new guidance improves and simplifies the current net asset classification requirements and information presented in financial statements and notes that is useful in assessing a not-for-profit's liquidity, financial performance and cash flows. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017 (fiscal year 2019). ASU 2016-14 is to be applied retroactively with transition provisions. The Organization is assessing the impact this standard will have on its financial statements.

In November 2016, FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. The amendments in this update require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. Amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period amounts shown on the combining statement of cash flows. ASU 2016-18 is effective for fiscal years beginning after December 15, 2018 (fiscal year 2020), with early adoption permitted. ASU 2016-18 is to be applied retroactively with transition provisions. The Organization is assessing the impact this standard will have on its financial statements.

In June 2018, FASB issued ASU 2018-08, *Not-for-Profit Entities* (Topic 958): *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The new guidance is intended to clarify and improve accounting guidance for contributions received and contributions made. The amendments in this ASU should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. ASU 2018-08 is effective for fiscal years beginning after December 15, 2018 (fiscal year 2020) and is intended to be implemented concurrently with ASU 2014-09. The Organization is assessing the impact this standard will have on its financial statements.

Subsequent Events

The Organization has evaluated subsequent events through November 7, 2018, which is the date that the financial statements were approved and available to be issued.

NOTE 2 - LOANS RECEIVABLE

The Organization's primary activity is to make loans to affiliates building homes in the State of Minnesota. These affiliates are also tax exempt organizations described in Section 501(c)(3) of the Internal Revenue Code. Affiliates' borrowings are collateralized by mortgage notes that affiliates issued to homeowners.

	2018	2017
Various affiliates, non-interest bearing, lump sum payments due 2018 through 2023	$ 203,403	$ 207,372
Various affiliates, 3% interest, monthly payments through November 1, 2021	160,182	352,452
Various affiliates, 1% interest, monthly payments through June 1, 2023	98,985	123,922
Various affiliates through the revolving loan fund, non-interest bearing, monthly payments through February 1, 2044	20,436,823	20,594,701
Various affiliates, 2.25%, 2.5%, 2.6% and 3.0% interest, monthly payments through July 1, 2041	18,235,717	19,019,552
Total loans receivable	39,135,110	40,297,999
Less: Unamortized discount	(8,142,773)	(8,556,021)
Less: Allowance for loan losses	(58,700)	(60,500)
Net Loans Receivable	$ 30,933,637	$ 31,681,478

All loans receivable are discounted based on the fair market interest rate at the time the funds are advanced. The fair market rate for 2018 and 2017 was based on a 60 basis point spread over 30-year Treasury bills. The discount rates used for the loans advanced in the years ended June 30, 2018 and 2017 were 3.44% and 2.84%, respectively. Loans receivable represent 92.9% and 93.4% of total assets as of June 30, 2018 and 2017, respectively.

Maturities of loans receivable based on the face amount of the loans are as follows at June 30, 2018:

Amounts due in fiscal year:	
2019	$ 2,611,162
2020	2,472,550
2021	2,312,254
2022	2,262,748
2023	2,224,312
Thereafter	27,252,084
Total	$ 39,135,110

NOTE 2 - LOANS RECEIVABLE (continued)

The Organization conducts a quarterly evaluation of each affiliate borrower utilizing financial statements and mortgage portfolio quality reports. Ratios and percentages are calculated on a five point scale in seven categories as established in the Organization's Board-established Loan Policy. The resulting Credit Risk Rating (CRR) is utilized to establish the appropriate level of provision for loan losses at fiscal year end. A pool reserve of 15 basis points has been established for all borrowers with a CRR of 4 or better. The provision for loan loss at a CRR of 5 is based on the projected impairment amount. As of June 30, 2018 and 2017, the provision for loan loss was set at the pool reserve and there were no projected impairment amounts.

A loan is considered delinquent when the affiliate borrower fails to make a contractually due payment within five days of the due date. Collection processes are established in the Organization's Loan Policy. As of June 30, 2018 and 2017, 100% of the Organization's loans were current.

At such time as the occurrence of a failure to collect payments from the affiliate borrower is combined with a shortfall in proceeds from collection, foreclosure or liquidation of the underlying pledged mortgage, the Organization will write-off the loan. For each of the years ended June 30, 2018 and 2017, no amounts were written-off.

The following table presents a summary of the activity for the provision for loan losses for the years ended June 30:

	2018	2017
Beginning balance	$ 60,500	$ 62,000
Provision for loan losses	(1,800)	(1,500)
Ending balance	$ 58,700	$ 60,500

NOTE 3 - PROPERTY AND EQUIPMENT

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

	2018	2017
Furniture and equipment	$ 18,320	$ 18,320
Vehicle	7,200	7,200
Less: Accumulated depreciation	(22,696)	(18,896)
Property and equipment, net	$ 2,824	$ 6,624

NOTE 4 - CRV RECOVERABLE GRANTS

The Organization has received six CRV recoverable grant awards since the year ended June 30, 2009. These recoverable grants were provided by the Minnesota Housing Finance Agency (MHFA) under their Community Revitalization Fund Program. Funds are to be utilized in accordance with a "Fund Availability, Disbursement, and Loan / Grant Agreement" that specifies the terms under which grant funds are recoverable. Grant funds that have not yet been disbursed for their intended purpose constitute the primary liability to the Organization. Grant funds are to be disbursed to "Owner-Occupants" to acquire "Qualified Dwelling Units". Each disbursement is evidenced by a Second Note secured by a Second Mortgage on the Qualified Dwelling Unit. The Organization is to receive repayment of funds from Owner-Occupants if they no longer occupy the Qualified Dwelling Unit at any time during a thirty-year period. After the thirty-year period, repayment by the Owner-Occupant is not required. Should the Organization ever receive such a repayment, it would then need to repay MHFA unless the Organization, within 6 months, re-disburses that amount to another Owner-Occupant to acquire another Qualified Dwelling Unit.

These recoverable grant awards total $3,042,700 and $2,837,000 as of June 30, 2018 and 2017, respectively, of which all was disbursed as of June 30, 2018 and $60,000 remained undisbursed as of June 30, 2017. During the years ended June 30, 2018 and 2017, the Organization disbursed $314,536 and $399,000, respectively, to Owner-Occupants of Qualified Dwelling Units. In 2018, the Organization also received returned grant awards of $22,950, of which $14,940 was disbursed. As of June 30, 2018, the undistributed returned grant awards of $8,010 is shown as both a liability and restricted cash and cash equivalents in the accompanying statements of financial position. In 2017, the Organization received returned grant awards of $17,396, of which $12,000 was disbursed. As of June 30, 2017, the undistributed grant awards of $60,000 plus the undistributed returned grant awards of $5,396 is shown as both a liability and restricted cash and cash equivalents in the accompanying statements of financial position. As disbursements are made to Owner-Occupants, grant revenue and program expense is reflected in the statement of activities, as the Organization believes it has fulfilled the grant purpose. Neither a receivable nor a payable for the distributed portion of the grant is reflected in the statement of financial position as collection of the recoverable grants and ultimate repayment to MHFA is considered remote.

NOTE 5 - REVOLVING LOAN PAYABLE

The Organization entered into a revolving loan agreement with the MHFA on December 22, 2000. The agreement was amended on September 9, 2004. The agreement stipulates $21,157,927 will be loaned to the Organization for the purpose of providing interest free mortgage financing to its network of affiliates. The loan is 0% interest and not payable as long as certain conditions are met. The conditions stipulate that the funds must be used to finance mortgages to low and moderate income families. Management believes the Organization is in compliance with these conditions. The loan payable is secured by the related loans receivable, the underlying homeowner notes and mortgages and funds held in the related proceeds and repayment accounts. The revolving loan balance at June 30, 2018 and 2017 was $21,157,927. The revolving loan is discounted based on the same discount used when the funds are loaned to affiliates. The unamortized discount at June 30, 2018 and 2017 was $5,998,720 and $6,177,052, respectively. The discounted rate on all loans ranges from 3.29% to 6.98%.

NOTE 6 - NOTES PAYABLE

Notes payable consisted of the following at June 30:

	2018	2017
Note payable to MHFA, 3%, due in quarterly installments of $10,834 through July 1, 2018	$ 10,754	$ 52,974
Note payable to MHFA, 3%, due in quarterly installments of $10,834 through February 1, 2019	32,022	73,615
Note payable to MHFA, 3%, due in quarterly installments of $10,834 through January 1, 2020	73,615	113,985
Note payable to Wells Fargo Housing Foundation, 1%, due in quarterly installments of $4,833 through July 1, 2018	4,821	23,982
Note payable to Wells Fargo Housing Foundation, 1%, due in quarterly installments of $4,833 through February 1, 2019	14,425	33,492
Note payable to Wells Fargo Housing Foundation, 1%, due in quarterly installments of $4,833 through January 1, 2020	33,492	52,369
Note payable to Wells Fargo Housing Foundation, 1%, due in quarterly installments of $4,833 through October 1, 2020	47,667	66,404
Note payable to Wells Fargo Housing Foundation, 1%, due in quarterly installments of $4,833 through February 1, 2022	71,058	89,562
Notes payable to GMHF, non-interest bearing, unsecured, balance due in equal payments on December 31, 2017, January 7, 2019 and March 31, 2020	168,000	252,000
Note payable to MHFA, 5%, unsecured, due in quarterly installments of $17,574 through January 1, 2041	5,340,489	5,490,529
Note payable to MHFA, 0%, unsecured, due in quarterly installments of $10,000 through January 1, 2041	4,860,000	5,100,000
Note payable to MHFA, 2%, unsecured, due in quarterly installments of $127,319 through January 1, 2035	6,468,840	6,858,628
Total notes payable	17,125,183	18,207,540
Less: Unamortized discount	(2,441,451)	(2,739,615)
Net Notes Payable	$ 14,683,732	$ 15,467,925

NOTE 6 - NOTES PAYABLE (continued)

Except as noted above, all notes payable are secured by the related loans receivable, the underlying homeowner notes and mortgages and funds held in the related proceeds, repayment and reserve accounts. Maturities of notes payable are as follows at June 30, 2018:

Year Ending June 30:	
2019	$ 1,042,414
2020	980,116
2021	842,074
2022	840,235
2023	843,250
Thereafter	12,577,094
Total	$ 17,125,183

The Organization is required to maintain two segregated, interest bearing cash accounts for loan repayments under security agreements. Under this arrangement, the borrower is required to deposit all funds into the repayment account and this must be equal to or greater than the quarterly payment that is next due. Surplus, if any, after allowable expenses may be transferred to a proceeds account for loans to affiliates.

All notes payable are discounted based on the fair market interest rate at the time the loans are received. The fair market rates used for the years ended June 30, 2018 and 2017 were based on a 60 basis point spread over 30 year treasury bills, which was 3.44% and 2.84%, respectively.

NOTE 7 - OPERATING LEASE COMMITMENTS

During fiscal 2017, the Organization entered into a long-term operating lease for office space. The Organization’s previous lease for office space was under a month-to-month arrangement. The lease term began on May 1, 2017 and expires on April 30, 2020. The lease contains two consecutive three year renewal options at the end of the lease term. The Organization also leases certain office equipment. Total rent expense for all operating leases were approximately $33,900 and $28,100 for the years ended June 30, 2018 and 2017, respectively.

Minimum future rental payments under non-cancelable operating leases at June 30, 2018 are approximately:

Year Ending June 30:	
2019	$ 25,260
2020	21,440
2021	1,365
Total	$ 48,065

NOTE 8 - CONCENTRATIONS

During the years ended June 30, 2018 and 2017, the Organization received 99% of its financing through one institution, Minnesota Housing Finance Agency. The Organization is current on all notes payable.

As of June 30, 2018 and 2017, approximately 65% and 66%, respectively, of the loans outstanding were to the Twin Cities Habitat for Humanity affiliate. Total loans issued to Twin Cities Habitat for the years ended June 30, 2018 and 2017 were $480,349 and $450,000.

NOTE 9 - RELATED PARTIES

Twin Cities Habitat for Humanity (TC-HFH) administers the Organization's payroll and employee benefit plans. At June 30, 2018 and 2017, the Organization owed TC-HFH $52,782 and $55,719, respectively for payroll paid for the Organization's employees. The administrative services are provided at no cost and the value of these services is not material to the financial statements.

Several of the Habitat for Humanity affiliates that receive loans and other services from the Organization have employees and volunteers that serve on the Habitat for Humanity of Minnesota, Inc. Board of Directors. A member of the Board of Directors is an officer of the company that leases office space to the Organization (see Note 7). The Organization follows a conflict of interest policy.

NOTE 10 - 401(k) DEFINED CONTRIBUTION PLAN

The Organization's employees participate in a 401(k) defined contribution plan through Twin Cities Habitat for Humanity. Eligible employees may elect to defer up to 20% of their compensation. The Organization contributed an amount on behalf of each eligible participant equal to 100% of their contributions up to 3%. Contributions to the plan by the Organization were $6,147 and $6,761 for the years ended June 30, 2018 and 2017, respectively.