Habitat for Humanity of Minnesota, Inc.

Financial Statements

June 30, 2020 and 2019

Independent Auditors' Report

To the Board of Directors of
Habitat for Humanity of Minnesota, Inc.

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, 2020 and 2019, and the related statements of activities, cash flows and functional expenses 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 consolidated 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 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 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 entities' 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 entities' 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 Habitat for Humanity of Minnesota, Inc. as of June 30, 2020 and 2019, 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 US, LLP

Baker Tilly US, LLP (formerly known as Baker Tilly Virchow Krause, LLP)
Minneapolis, Minnesota
November 6, 2020

Habitat For Humanity of Minnesota, Inc.

Statements of Financial Position
June 30, 2020 and 2019

	2020	2019
Assets		
Cash and cash equivalents	$ 947,476	$ 883,741
Cash and cash equivalents, restricted	2,090,867	1,910,778
Interest receivable	41,532	41,252
Prepaid expenses and other assets	48,072	44,511
Property and equipment, net	8,363	10,802
Loans receivable	36,337,212	37,505,470
Allowance for loan losses	(154,356)	(56,258)
Unamortized discount on loans receivable	(7,092,831)	(7,665,386)
Net loans receivable	29,090,025	29,783,826
Total assets	$ 32,226,335	$ 32,674,910
Liabilities and Net Assets		
Liabilities		
Accounts payable	$ 13,970	$ 11,967
Assistance to affiliates payable	28,379	94,171
Accrued payroll expenses	49,905	24,442
Accrued vacation	22,262	7,456
Deferred fee income	353,485	347,681
Other accrued expenses	100,049	110,722
Deposits on loans receivable from affiliates	25,845	44,147
PPP forgivable loan	92,472	-
CRV recoverable grants	69,560	71,735
Revolving loans payable	21,157,927	21,157,927
Notes payable	15,102,381	16,082,769
Unamortized discount on revolving loan and notes payable	(7,292,820)	(7,883,519)
Net loans and notes payable	28,967,488	29,357,177
Total liabilities	29,723,415	30,069,498
Net Assets		
Net assets without donor restrictions	2,502,920	2,605,412
Total Net Assets	2,502,920	2,605,412
Total liabilities and net assets	$ 32,226,335	$ 32,674,910

See notes to financial statements

Habitat For Humanity of Minnesota, Inc.

Statements of Activities
Years Ended June 30, 2020 and 2019

	2020			2019		
	Without Donor Restrictions	**With Donor Restrictions**	**Total**	**Without Donor Restrictions**	**With Donor Restrictions**	**Total**
Operating Support and Revenue						
Contributions	$ 301,594	$ -	$ 301,594	$ 268,014	$ -	$ 268,014
CRV grant revenue	65,000	-	65,000	155,800	-	155,800
Program fees	172,829	-	172,829	140,805	-	140,805
Interest income	504,237	-	504,237	544,074	-	544,074
Habitat 500 revenue	89,486	-	89,486	98,734	-	98,734
Other income	170	-	170	-	-	-
Total support and other revenue	1,133,316	-	1,133,316	1,207,427	-	1,207,427
Operating Expenses						
Program expenses	1,027,098	-	1,027,098	1,026,917	-	1,026,917
Support services:						
Management and general	123,009	-	123,009	106,344	-	106,344
Fundraising	67,557	-	67,557	68,575	-	68,575
Total support services	190,566	-	190,566	174,919	-	174,919
Total expense	1,217,664	-	1,217,664	1,201,836	-	1,201,836
Change in net assets, operating	(84,348)	-	(84,348)	5,591	-	5,591
Nonoperating						
Amortization of discounts on loans receivable	766,009	-	766,009	671,947	-	671,947
Amortization of discounts on revolving loan and notes payable	(784,153)	-	(784,153)	(751,213)	-	(751,213)
Change in net assets, nonoperating	(18,144)	-	(18,144)	(79,266)	-	(79,266)
Total change in net assets	(102,492)	-	(102,492)	(73,675)	-	(73,675)
Net Assets, Beginning	2,605,412	-	2,605,412	2,679,087	-	2,679,087
Net Assets, Ending	$ 2,502,920	$ -	$ 2,502,920	$ 2,605,412	$ -	$ 2,605,412

See notes to financial statements

Habitat For Humanity of Minnesota, Inc.

Statements of Functional Expenses
Years Ended June 30, 2020 and 2019

	2020				2019			
	Program	Management and General	Fundraising	Total	Program	Management and General	Fundraising	Total
Operating Expenses								
Payroll expenses	$ 297,360	$ 74,818	$ 59,723	$ 431,901	$ 320,883	$ 40,913	$ 50,012	$ 411,808
Office expenses	32,986	11,476	1,711	46,173	33,310	5,868	2,312	41,490
Professional services	145,993	10,420	5,468	161,881	130,016	30,122	15,224	175,362
Meetings and training	23,915	884	182	24,981	12,820	2,388	663	15,871
Interest expense	332,515	-	-	332,515	348,788	-	-	348,788
Travel	8,436	1,648	175	10,259	5,396	1,960	324	7,680
Insurance	7,487	280	143	7,910	125	4,803	-	4,928
Equipment expense	936	-	-	936	-	335	-	335
Loan trustee fees	10,733	-	-	10,733	14,758	-	-	14,758
Advertising	667	-	80	747	765	256	40	1,061
Administrative	1,058	25	-	1,083	2,422	72	-	2,494
Other	12	659	75	746	1,834	1,346	-	3,180
Tithe	-	20,000	-	20,000		18,000	-	18,000
CRV grant expense	65,000	-	-	65,000	155,800	-	-	155,800
2020 second mortgage forgivable loan expense	100,000	-	-	100,000	-	-	-	-
Provisions for loan losses	-	(1,902)	-	(1,902)	-	(2,442)	-	(2,442)
Depreciation	-	4,701	-	4,701	-	2,723	-	2,723
Total operating	1,027,098	123,009	67,557	1,217,664	1,026,917	106,344	68,575	1,201,836
Nonoperating Expenses								
Amortization of discounts on revolving loan and notes payable	784,153	-	-	784,153	751,213	-	-	751,213
Total nonoperating	784,153	-	-	784,153	751,213	-	-	751,213
Total expenses	$ 1,811,251	$ 123,009	$ 67,557	$ 2,001,817	$ 1,778,130	$ 106,344	$ 68,575	$ 1,953,049
Percentage based on operating expenses	84%	10%	6%	100%	85%	9%	6%	100%
Percentage based on total expenses	91%	6%	3%	100%	91%	5%	4%	100%

See notes to financial statements

Habitat For Humanity of Minnesota, Inc.

Statements of Cash Flows
Years Ended June 30, 2020 and 2019

	2020	2019
Cash Flows From Operating Activities		
Change in net assets	$ (102,492)	$ (73,675)
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	4,701	2,723
Amortization of discounts on loans receivable	(766,009)	(671,947)
Amortization of discounts on revolving loan and notes payable	784,153	751,213
Provision for loan losses	98,098	(2,442)
Changes in operating assets and liabilities		
Interest receivable	(280)	2,143
Prepaid expenses and other assets	(3,561)	(10,687)
Accounts payable	2,003	(2,967)
Assistance to affiliates payable	(65,792)	(24,515)
Accrued payroll expenses	25,463	(41,801)
Accrued vacation	14,806	1,683
Deferred fee income	5,804	(16,718)
CRV recoverable grants	(2,175)	63,725
Other accrued expenses	(10,673)	5,789
Net cash flows from operating activities	(15,954)	(17,476)
Cash Flows From Investing Activities		
Collections on loans receivable	2,667,666	2,499,976
Purchase of equipment	(2,262)	(10,701)
Loans receivable issued	(1,517,710)	(885,526)
Net cash flows from investing activities	1,147,694	1,603,749
Cash Flows From Financing Activities		
Loan proceeds	92,472	-
Payments on notes payable	(980,388)	(1,042,414)
Net cash flows from financing activities	(887,916)	(1,042,414)
Change in cash, cash equivalents and restricted cash	243,824	543,859
Cash, Cash Equivalents and Restricted Cash, Beginning	2,794,519	2,250,660
Cash, Cash Equivalents and Restricted Cash, Ending	$ 3,038,343	$ 2,794,519
Supplemental Cash Flow Disclosures		
Cash paid for interest	$ 336,402	$ 350,300

See notes to financial statements

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, 2020, there were 28 affiliates providing housing solutions for approximately 270 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 percent 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 Asset Classifications

For the purposes of financial reporting, the Organization classifies resources into two net asset categories pursuant to any donor-imposed restrictions. Accordingly, the net assets of the Organization are classified in the accompanying financial statements in the categories that follow:

Net Assets Without Donor Restrictions - Net assets that are not subject to donor-imposed stipulations. Board-designated net assets are net assets without donor restrictions subject to self-imposed limits by action of the governing board and may be earmarked for future programs, investment, contingencies, purchase or construction of fixed assets, or other uses. The Organization does not have any board-designated net assets.

Net Assets With Donor Restrictions - Net assets subject to donor-imposed stipulations that will be met by action of the Organization and/or passage of time. Some net assets with donor restrictions include a stipulation that assets provided be maintained in perpetuity while permitting the Organization to expend the income generated by the assets in accordance with the provisions of additional donor-imposed stipulations or a Board approved spending policy. The Organization does not have any net assets with donor restrictions.

Nonoperating Activities

Nonoperating activities include all noncash activities relating to the discounting of loans payable and receivable.

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. Cash and cash equivalents on the statement of cash flows includes amounts labeled as cash and cash equivalents, restricted on the statement of financial position.

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.

Contributions

Contributions are recognized when received in the form of an unconditional pledge or cash. Pledges receivable (unconditional promises to give) are recorded at their net realizable value. Conditional promises to give – that is, those with a measurable performance or other barrier and a right of return – are recognized as contributions when the conditions are 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.

Program Fees

Program fees are primarily loan closing fees paid by the affiliates. The majority of the revenue is recognized upon closing of the loan, however fees collected above a standard fixed fee, due to additional components, are deferred and amortized into income over the life of the loan.

Functional Allocation of Expenses

The financial statements report certain categories of expenses that are attributable to one or more program or supporting functions of the Organization. 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 is 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, 2020 and 2019. 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.

New Accounting Pronouncement Adopted in the Current Year

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) No. 2014-09, *Revenue From Contracts With Customers (Topic 606).* This guidance outlines a single comprehensive model for entities to use in accounting for revenue from contracts with customers. The Organization adopted the provisions of this standard during the year ended June 30, 2020, utilizing the modified retrospective method of adoption. The Organization determined that this standard did not have a material impact on its business practices, financial condition, or results of operations during the fiscal year ended June 30, 2020.

In June 2018, FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The 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. The Organization adopted the provisions of this standard using the modified prospective basis, as of July 1, 2019 and there was no material impact to the financial condition or results of operations during the fiscal year ended June 30, 2020.

In November 2016, FASB issued ASU No. 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. The Organization adopted the provisions of this standard during the year ended June 30, 2020. The changes were retroactively applied to the year ended June 30, 2019, and restricted cash of $1,348,276 as of July 1, 2018 was included in the beginning cash, cash equivalents and restricted cash, restricted cash of $1,910,778 as of June 30, 2019 was included in the ending cash, cash equivalents and restricted cash, and net cash flows from investing activities increased $562,502 within the fiscal 2019 statement of cash flows.

New Accounting Pronouncements Not Yet Effective

In February 2016, FASB issued ASU No. 2016-02, *Leases (Topic 842)*. 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, 2021 (fiscal year 2023). 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. Management is currently assessing the impact this standard will have on its financial statements.

Subsequent Events

The Organization has evaluated subsequent events through November 6, 2020, which is the date that the financial statements were approved and available to be issued.

In early 2020, an outbreak of the novel strain of coronavirus (COVID-19) emerged globally. As a result, there have been mandates from federal, state and local authorities resulting in an overall decline in economic activity. The ultimate impact of COVID-19 on the financial position and results of operations of the Organization is not reasonably estimable at this time.

2. Liquidity and Availability

The following table reflects the Organization's financial assets as of June 30, 2020 and 2019, available for general expenditures within one year. Financial assets are considered unavailable when illiquid or not convertible to cash within one year. Other financial assets excluded from this measure of liquidity include reserves that can only be used for loans to affiliates.

	2020	2019
Cash and cash equivalents	$ 947,476	$ 833,741
Interest receivable	41,532	41,252
Loans receivable due in next fiscal year	2,454,447	2,483,594
Financial assets available to meet cash need for general expenditures within one year	$ 3,443,455	$ 3,408,587

As part of the Organization's liquidity management, the Organization structures its financial assets to be available as its general expenditures, liabilities and other obligations come due. The Organization's policy on cash operating reserves includes maintaining undesignated cash and short term investment balances at all times equal to a minimum of six months of adjusted estimated operating expenses.

3. 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.

	2020	2019
Various affiliates, noninterest bearing, lump sum payments due 2019 through 2023	$ 41,766	$ 48,195
Various affiliates, 3% interest, monthly payments through November 1, 2021	5,594	57,145
Various affiliates, 1% interest, monthly payments through June 1, 2023	48,367	73,802
Various affiliates through the revolving loan fund, noninterest bearing, monthly payments through February 1, 2044	19,901,066	19,896,493
Various affiliates, 2.25%, 2.5%, 2.6% and 3.0% interest, monthly payments through July 1, 2041	16,240,419	17,429,835
Forgivable second mortgages to homeowners with first mortgages issued by various affiliates, noninterest bearing	100,000	-
Total loans receivable	36,337,212	37,505,470
Less unamortized discount	(7,092,831)	(7,665,386)
Less allowance for loan losses	(154,356)	(56,258)
Net loans receivable	$ 29,050,025	$ 29,783,826

All loans receivable are discounted based on the fair market interest rate at the time the funds are advanced. The fair market rate for 2020 and 2019 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, 2020 and 2019 were 3.15 percent and 3.58 percent, respectively. Loans receivable represent 90.1 percent and 91.2 percent of total assets as of June 30, 2020 and 2019, respectively.

Maturities of loans receivable based on the face amount of the loans are as follows at June 30, 2020:

Years ending June 30:	
2021	$ 2,454,447
2022	2,372,941
2023	2,336,815
2024	2,310,849
2025	2,272,914
Thereafter	24,589,246
Total	$ 36,337,212

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, 2020 and 2019, 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, 2020 and 2019, 100 percent 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, 2020 and 2019, 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:

	2020	2019
Beginning balance	$ 56,258	$ 58,700
Provision for forgivable second mortgages	100,000	-
Provision for loan losses – decrease	(1,902)	(2,442)
Ending balance	$ 154,356	$ 56,258

4. Property and Equipment, Net

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

	2020	2019
Furniture and equipment	$ 31,283	$ 29,021
Vehicle	7,200	7,200
Less accumulated depreciation	(30,120)	(25,419)
Property and equipment, net	$ 8,363	$ 10,802

5. Paycheck Protection Program Loan

On April 15, 2020, the Organization obtained a loan under the Paycheck Protection Program (PPP) administered by the U.S. Small Business Administration (SBA) in the amount of $92,472. The PPP was authorized in the Coronavirus Aid, Relief and Economic Security (CARES) Act. Under the terms of the loan, it will bear interest at 1.0 percent per annum and matures on April 15, 2022. Subsequent guidance extended the loan payment deferral period to the date the SBA remits the loan forgiveness amount to the lender or ten months after the loan forgiveness covered period. There are no collateral or guarantee requirements. Subject to certain eligibility and certification requirements, some or all of the loan amount may be forgiven, however, the amount and timing of any forgiveness is uncertain.

6. CRV Recoverable Grants

The Organization has received eleven 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 $3,198,500 as of June 30, 2020 and 2019, of which $69,560 and $71,735 remained undisbursed as of June 30, 2020 and June 30, 2019, respectively. During the years ended June 30, 2020 and 2019, the Organization disbursed $65,000 and $155,800, respectively, to Owner-Occupants of Qualified Dwelling Units. In 2020, the Organization also received returned grant awards of $71,698, of which $8,873 was disbursed. As of June 30, 2020, the undistributed returned grant awards of $69,560 is shown as both a liability and restricted cash and cash equivalents in the accompanying statement of financial position. In 2019, the Organization received returned grant awards of $101,675, of which $29,940 was disbursed. As of June 30, 2019, the undistributed returned grant awards of $71,735 is shown as both a liability and restricted cash and cash equivalents in the accompanying statement 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 statements of financial position as collection of the recoverable grants and ultimate repayment to MHFA is considered remote.

7. Revolving Loans 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 percent 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, 2020 and 2019 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, 2020 and 2019 was $5,403,567 and $5,735,230, respectively. The discounted rate on all loans ranges from 3.15 percent to 6.98 percent.

8. Notes Payable

Notes payable consisted of the following at June 30:

	2020	2019
Note payable to MHFA, 3%, due in quarterly installments of $10,834 through January 1, 2020	$ -	$ 32,022
Note payable to Wells Fargo Housing Foundation, 1%, due in quarterly installments of $4,833 through January 1, 2020	-	14,425
Note payable to Wells Fargo Housing Foundation, 1%, due in quarterly installments of $4,833 through October 1, 2020	9,629	28,743
Note payable to Wells Fargo Housing Foundation, 1%, due in quarterly installments of $4,833 through February 1, 2022	33,492	52,369
Notes payable to GMHF, noninterest bearing, unsecured, balance due in equal payments on January 7, 2019 and March 31, 2020	-	84,000
Note payable to MHFA, 5%, unsecured, due in quarterly installments of $17,574 through January 1, 2041	5,017,085	5,182,805
Note payable to MHFA, 0%, unsecured, due in quarterly installments of $10,000 through January 1, 2041	4,380,000	4,620,000
Note payable to MHFA, 2%, unsecured, due in quarterly installments of $127,319 through January 1, 2035	5,662,175	6,068,405
Total notes payable	15,102,381	16,082,769
Less unamortized discount	(1,889,253)	(2,148,289)
Net notes payable	$ 13,213,128	$ 13,934,480

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, 2020:

Years ending June 30:	
2021	$ 842,074
2022	840,235
2023	843,250
2024	861,330
2025	880,075
Thereafter	10,835,417
Total	$ 15,102,381

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, 2020 and 2019 were based on a 60 basis point spread over 30 year treasury bills, which was 3.15 percent and 3.58 percent, respectively.

9. Operating Lease Commitments

During fiscal 2017, the Organization entered into a long-term operating lease for office space. The original lease, as amended, expired on April 30, 2020. In October 2019, an additional amendment to the lease extended the term to April 30, 2021, with the option to renew for two subsequent six-month periods. The Organization also leases certain office equipment. Total rent expense for all operating leases was approximately $27,580 and $28,340 for the years ended June 30, 2020 and 2019, respectively. Minimum future rental payments under noncancelable operating leases is approximately $21,260 for the year ending June 30, 2021.

10. Concentrations

During the years ended June 30, 2020 and 2019, the Organization received 99 percent of its financing through one institution, Minnesota Housing Finance Agency. The Organization is current on all notes payable.

As of June 30, 2020 and 2019, approximately 62 percent and 64 percent, respectively, of the loans outstanding were to the Twin Cities Habitat for Humanity affiliate. No loans were issued to Twin Cities Habitat for the years ended June 30, 2020 and 2019.

11. Related Parties

Twin Cities Habitat for Humanity (TC-HFH) administers the Organization's payroll and employee benefit plans. At June 30, 2020 and 2019, the Organization owed TC-HFH $49,905 and $21,226, 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. The Organization follows a conflict of interest policy.

12. 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 percent of their compensation. The Organization contributed an amount on behalf of each eligible participant equal to 100 percent of their contributions up to 3 percent. Contributions to the plan by the Organization were $8,480 and $5,638 for the years ended June 30, 2020 and 2019, respectively.