Habitat for Humanity of Minnesota, Inc.

Financial Statements

June 30, 2022 and 2021

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Independent Auditors' Report

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

Opinion

We have audited the financial statements of Habitat for Humanity of Minnesota, Inc. (the Organization), which comprise the statements of financial position as of June 30, 2022 and 2021, and the related statements of activities, cash flow and functional expenses for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as of June 30, 2022 and 2021, 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 (GAAP).

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with GAAP, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings and certain internal control-related matters that we identified during the audit.

Baker Tilly US, LLP

Minneapolis, Minnesota
January 20, 2023

Habitat For Humanity of Minnesota, Inc.

Statements of Financial Position
June 30, 2022 and 2021

	2022	2021
Assets		
Cash and cash equivalents	$ 1,528,842	$ 1,949,974
Cash and cash equivalents, restricted	2,943,015	3,406,194
Interest receivable	27,237	29,067
Prepaid expenses and other assets	84,064	43,256
Property and equipment, net	2,760	7,804
Loans receivable:	31,716,597	32,561,923
Allowance for loan losses	(376,465)	(148,843)
Unamortized discount on loans receivable	(5,814,359)	(6,353,511)
Net loans receivable	25,525,773	26,059,569
Total assets	$ 30,111,691	$ 31,495,864
Liabilities and Net Assets		
Liabilities		
Accounts payable	$ 94,769	$ 12,946
Assistance to affiliates payable	47,846	43,619
Accrued payroll expenses	49,438	43,246
Accrued vacation	30,630	31,711
Deferred fee income	451,825	370,705
Other accrued expenses	75,190	83,059
Deposits on loans receivable from affiliates	16,366	22,979
PPP forgivable loan	-	108,197
CRV recoverable grants	69,911	25,060
Revolving loans payable	21,157,927	21,157,927
Notes payable	11,104,248	13,457,581
Unamortized discount on revolving loan and notes payable	(6,390,859)	(6,788,294)
Net loans and notes payable	25,871,316	27,827,214
Total liabilities	26,707,291	28,568,736
Net Assets		
Net assets without donor restrictions	3,392,672	2,927,128
Net assets with donor restrictions	11,728	-
Total net assets	3,404,400	2,927,128
Total liabilities and net assets	$ 30,111,691	$ 31,495,864

See notes to financial statements

Habitat For Humanity of Minnesota, Inc.

Statements of Activities
Years Ended June 30, 2022 and 2021

	2022			2021		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Operating Support and Revenue						
Contributions	$ 352,123	$ 38,000	$ 390,123	$ 442,169	$ -	$ 442,169
Government grant revenue	450,000	-	450,000	-	-	-
Program fees	164,836	-	164,836	162,965	-	162,965
Interest income	340,025	-	340,025	431,992	-	431,992
Habitat 500 revenue	62,660	-	62,660	28,780	-	28,780
Forgiveness of PPP loan	108,197	-	108,197	92,472	-	92,472
Other income	41,963	-	41,963	-	-	-
Net assets released from restrictions	26,272	(26,272)	-	-	-	-
Total operating support and revenue	1,546,076	11,728	1,557,804	1,158,378	-	1,158,378
Operating Expenses						
Program expenses	961,287	-	961,287	807,187	-	807,187
Support services:						
Management and general	249,985	-	249,985	94,706	-	94,706
Fundraising	10,977	-	10,977	67,071	-	67,071
Total support services	260,962	-	260,962	161,777	-	161,777
Total operating expenses	1,222,249	-	1,222,249	968,964	-	968,964
Change in net assets, operating	323,827	11,728	335,555	189,414	-	189,414
Nonoperating						
Amortization of discounts on loans receivable	539,152	-	539,152	739,320	-	739,320
Amortization of discounts on revolving loan and notes payable	(397,435)	-	(397,435)	(504,526)	-	(504,526)
Change in net assets, nonoperating	141,717	-	141,717	234,794	-	234,794
Total change in net assets	465,544	11,728	477,272	424,208	-	424,208
Net Assets, Beginning	2,927,128	-	2,927,128	2,502,920	-	2,502,920
Net Assets, Ending	$ 3,392,672	$ 11,728	$ 3,404,400	$ 2,927,128	$ -	$ 2,927,128

See notes to financial statements

Habitat For Humanity of Minnesota, Inc.

Statements of Functional Expenses

Years Ended June 30, 2022 and 2021

	2022				2021			
	Program	Management and General	Fundraising	Total	Program	Management and General	Fundraising	Total
Operating Expenses								
Payroll expenses	$ 398,579	$ 45,764	$ 4,230	$ 448,573	$ 368,486	$ 54,962	$ 61,562	$ 485,010
Office expenses	45,677	11,460	4,043	61,180	36,283	3,703	1,958	41,944
Professional services	16,528	154,057	1,827	172,412	25,937	28,777	314	55,028
Meetings and training	5,874	3,079	-	8,953	6,300	1,527	2,345	10,172
Interest expense	210,757	-	-	210,757	314,334	-	-	314,334
Travel	5,053	677	-	5,730	763	780	-	1,543
Insurance	263	6,006	337	6,606	2,992	2,410	215	5,617
Loan trustee fees	14,017	-	-	14,017	22,808	-	-	22,808
Advertising	1,223	-	-	1,223	1,066	506	46	1,618
Administrative	-	26	-	26	3,813	903	195	4,911
Other	9,708	28,455	-	38,163	6,000	920	65	6,985
Tithe	20,000	-	-	20,000	20,000	-	-	20,000
Provisions for loan losses	229,565	-	-	229,565	(5,513)	-	-	(5,513)
Depreciation	4,043	461	540	5,044	3,918	218	371	4,507
Total operating	961,287	249,985	10,977	1,222,249	807,187	94,706	67,071	968,964
Nonoperating Expenses								
Amortization of discounts on revolving loan and notes payable	397,435	-	-	397,435	504,526	-	-	504,526
Total nonoperating	397,435	-	-	397,435	504,526	-	-	504,526
Total expenses	$ 1,358,722	$ 249,985	$ 10,977	$ 1,619,684	$ 1,311,713	$ 94,706	$ 67,071	$ 1,473,490

See notes to financial statements

Habitat For Humanity of Minnesota, Inc.

Statements of Cash Flows
Years Ended June 30, 2022 and 2021

	2022	2021
Cash Flows From Operating Activities		
Change in net assets	$ 477,272	$ 424,208
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	5,044	4,507
Amortization of discounts on loans receivable	(539,152)	(739,320)
Amortization of discounts on revolving loan and notes payable	397,435	504,526
Provision for loan losses	229,565	(5,513)
Forgiveness of PPP Loan	(108,197)	(92,472)
Changes in operating assets and liabilities:		
Interest receivable	1,830	12,465
Prepaid expenses and other assets	(40,808)	4,816
Accounts payable	81,823	(1,024)
Assistance to affiliates payable	4,227	15,240
Accrued payroll expenses	6,192	(6,659)
Accrued vacation	(1,081)	9,449
Deferred fee income	81,120	17,220
CRV recoverable grants	44,851	(44,500)
Other accrued expenses	(7,869)	(16,990)
Net cash flows from operating activities	632,252	85,953
Cash Flows From Investing Activities		
Collections on loans receivable	2,308,573	5,298,696
Purchase of equipment	-	(3,948)
Loans receivable issued	(1,471,803)	(1,526,273)
Net cash flows from investing activities	836,770	3,768,475
Cash Flows From Financing Activities		
Loan proceeds	-	108,197
Payments on notes payable	(2,353,333)	(1,644,800)
Net cash flows from financing activities	(2,353,333)	(1,536,603)
Change in cash, cash equivalents and restricted cash	(884,311)	2,317,825
Cash, Cash Equivalents and Restricted Cash, Beginning	5,356,168	3,038,343
Cash, Cash Equivalents and Restricted Cash, Ending	$ 4,471,857	$ 5,356,168
Supplemental Cash Flow Disclosures		
Cash paid for interest	$ 326,317	$ 331,830

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, 2022, there were 25 affiliates providing housing solutions for approximately 263 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 programs, 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.

Nonoperating Activities

Nonoperating activities include all noncash activities relating to the discounting of loans and notes 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 that are issued 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. Contributions or grants that include a measurable barrier, or those for which the Organization has limited discretion over how the funds are spent, and a right of return or release from future obligations, are considered conditional contributions. Conditional contributions are recognized as contributions when the conditions of the barrier are met.

During the year ended June 30, 2021, the Organization received two conditional promises to give that were not recorded. The conditional promises consisted of a $1,000,000 grant from the CDFI Fund and a $20,000 grant from Habitat for Humanity International. During the year ended June 30, 2022, $450,000 of the CDFI Fund grant and the $20,000 grant from Habitat for Humanity International were recognized as government grant and contribution revenue, respectively, as the conditions for recognition had been met. The remaining $550,000 of the CDFI grant is expected to be recognized as revenue in fiscal year 2023.

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, 2022 and 2021. 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.

Accounting Pronouncement Adopted in the Current Year

The Organization adopted ASU No. 2020-07, *Not-for-Profit Entities (Topic 958) Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets* as of June 30, 2022. This standard improves financial reporting by providing new presentation and disclosure requirements about contributed nonfinancial assets, including additional disclosure requirements for recognized contributed services. The adoption of this standard did not have a material impact on the Organization’s financial statements.

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). 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.

In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-13, *Measurement of Credit Losses on Financial Instruments.* ASU No. 2016-13 requires financial assets measured at amortized cost to be presented at the net amount expected to be collected, through an allowance for credit losses that is deducted from the amortized cost basis. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. FASB has issued subsequent standards to clarify, correct errors in or improve the guidance. ASU No. 2016-13 (as amended) is effective for annual periods and interim periods within those annual periods beginning after December 15, 2022 (fiscal year 2024). Early adoption is permitted. Management is currently assessing the impact this standard will have on its financial statements.

Subsequent Events

The Organization has evaluated subsequent events through January 20, 2023, which is the date that the financial statements were approved and available to be issued.

2. Liquidity and Availability

The following table reflects the Organization's financial assets as of June 30, 2022 and 2021, 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.

	2022	2021
Cash and cash equivalents	$ 1,528,842	$ 1,949,974
Interest receivable	27,237	29,067
Loans receivable due in next fiscal year	2,271,084	2,300,311
Financial assets available to meet cash need for general expenditures within one year	$ 3,827,163	$ 4,279,352

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.

	2022	2021
Various affiliates, noninterest bearing, lump sum payments due through 2022	$ 11,176	$ 13,609
Various affiliates, 1% interest, monthly payments due through June 1, 2023	-	18,755
Various affiliates through the revolving loan fund, noninterest bearing, monthly payments due through July 1, 2057	18,687,322	19,745,110
Various affiliates, 2.25%, 2.5%, 2.6% and 3.0% interest, monthly payments due through July 1, 2041	11,658,099	12,444,449
Various affiliates and strategic partners, 0% and 2.5% interest, monthly payments due through July 1, 2032	450,000	-
Forgivable second mortgages to homeowners through the revolving loan fund, with first mortgages issued by various affiliates, noninterest bearing through March 1, 2068	400,000	340,000
Second mortgages to homeowners through the revolving loan fund, with mortgages issued by various affiliates, noninterest bearing through February 29, 2064	510,000	-
Total loans receivable	31,716,597	32,561,923
Less unamortized discount	(5,814,359)	(6,353,511)
Less allowance for loan losses	(376,465)	(148,843)
Net loans receivable	$ 25,525,773	$ 26,059,569

All below-market loans receivable are discounted based on the fair market interest rate at the time the funds are advanced. The fair market rate for 2022 and 2021 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, 2022 and 2021 were 2.67% and 2.01%, respectively. Loans receivable represent 84.8% and 82.7% of total assets as of June 30, 2022 and 2021, respectively.

Maturities of loans receivable based on the face amount of the loans are as follows at June 30, 2022:

Years ending June 30:	
2023	$ 2,271,084
2024	2,234,686
2025	2,200,465
2026	2,191,973
2027	2,151,119
Thereafter	20,667,270
Total	$ 31,716,597

The Organization conducts a quarterly evaluation of each affiliate and strategic partner 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, 2022 and 2021, 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 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, 2022 and 2021, 100% of the Organization's loans were current.

At such time as the occurrence of a failure to collect payments from the 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, 2022 and 2021, 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:

	2022	2021
Beginning balance	$ 148,843	$ 154,356
Provision for CDFI RRP forgivable loans	230,000	-
Provision for loan losses, decrease	(2,378)	(5,513)
Ending balance	$ 376,465	$ 148,843

4. Property and Equipment, Net

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

	2022	2021
Furniture and equipment	$ 29,159	$ 35,231
Vehicle	6,072	7,200
Less accumulated depreciation	(32,471)	(34,627)
Property and equipment, net	$ 2,760	$ 7,804

5. Paycheck Protection Program Loans

On April 15, 2020, the Organization received loan proceeds in the amount of $92,472 under the Paycheck Protection Program (PPP) which was established as part of the Coronavirus Aid, Relief and Economic Security (CARES) Act and is administered by the U.S. Small Business Administration (SBA). The PPP provides loans to qualifying businesses in amounts up to 2.5 times their average monthly payroll expenses and was designed to provide a direct financial incentive for qualifying businesses to keep their workforce employed during the Coronavirus crisis. PPP loans are uncollateralized and guaranteed by the SBA and are forgivable after a “covered period" (eight or twenty-four weeks) as long as the borrower maintains its payroll levels and uses the loan proceeds for eligible expenses, including payroll, benefits, mortgage interest, rent, and utilities. The forgiveness amount will be reduced if the borrower terminates employees or reduces salaries and wages more than 25% during the covered period. Any unforgiven portion is payable over 2 years if issued before, or 5 years if issued after, June 5, 2020 at an interest rate of 1.0% with payments deferred until the SBA remits the borrower’s loan forgiveness amount to the lender, or, if the borrower does not apply for forgiveness, ten months after the end of the covered period. PPP loan terms provide for customary events of default, including payment defaults, breaches of representations and warranties, and insolvency events and may be accelerated upon the occurrence of one or more of these events of default. Additionally, PPP loan terms do not include prepayment penalties.

Upon satisfying the requirements for forgiveness, the Organization applied for forgiveness and received legal release in January 2021. Forgiveness income of $92,472 was recorded for the year ended June 30, 2021 in the statement of activities.

On February 16, 2021, the Organization obtained a second PPP loan in the amount of $108,197. The Organization believes it met the PPP’s loan forgiveness requirements, and therefore applied for forgiveness and received legal release in December 2021. Forgiveness income of $108,197 was recorded for the year ended June 30, 2022 in the statement of activities.

The SBA reserves the right to audit any PPP loan, regardless of size. These audits may occur after forgiveness has been granted. In accordance with the CARES Act, all borrowers are required to maintain their PPP loan documentation for six years after the PPP loan was forgiven or repaid in full and to provide that documentation to the SBA upon request.

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 receive such a repayment, it would need to repay MHFA unless the Organization, within 6 months, redeploys that amount to another Owner-Occupant to acquire another Qualified Dwelling Unit.

The remaining balance of these recoverable grant awards totaled $3,168,500 as of June 30, 2022 and 2021, of which $69,911 and $25,060 remained undisbursed, respectively. As of June 30, 2022 and 2021, the undisbursed balance of returned grant awards is included as both a liability and restricted cash and cash equivalents in the accompanying statements of financial position. During the year ended June 30, 2022, the Organization received $171,850 in returned grant awards and redeployed $60,000, with an additional $67,000 approved for redeployment that was disbursed subsequent to June 30, 2022. During the year ended June 30, 2021, the Organization disbursed $73,300, which included redeploying $28,800 in returned grant awards. 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% 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, 2022 and 2021 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, 2022 and 2021 was $4,680,856 and $5,055,686, respectively. The discounted rate on all loans ranges from 3.29% to 6.98%.

8. Owner-Occupied Repair Program

The Organization received a $150,000 grant award from the MHFA effective April 2020 through June 30, 2022, from the Community Homeownership Impact Fund. Funds are to be utilized for eligible Owner-Occupied repair projects in accordance with the Impact Fund Procedural Manual and the contract between MHFA and the Organization. Each disbursement is accompanied by a 5-year, forgivable deed restriction placed on the Qualified Dwelling Unit. Funds are disbursed from MHFA to the Organization on a project-by-project basis, then forwarded to the partner affiliate that has completed the work. As such, the funds are recorded immediately as a payable to the affiliate when received. The payable is reduced when the funds are forwarded to the affiliate. The Organization realizes fee income of 10% on each transaction, paid by the affiliate. Any funds returned to the Organization in the event a grant is not forgiven would be returned to the MHFA. For the year ended June 30, 2021, the Organization processed three awards totaling $45,350 and received fee income of $4,535 from the participating affiliates. For the year ended June 30, 2022, the Organization processed six awards totaling $50,995, and received fee income of $5,100.

9. Notes Payable

Notes payable consisted of the following at June 30:

	2022	2021
Note payable to Wells Fargo Housing Foundation, 1%, due in quarterly installments of $4,833 through February 1, 2022	$ -	$ 14,425
Note payable to MHFA, 5%, unsecured, due in quarterly installments of $17,574 through January 1, 2041	2,189,494	3,963,924
Note payable to MHFA, 0%, unsecured, due in quarterly installments of $10,000 through January 1, 2041	3,900,000	4,140,000
Note payable to MHFA, 2%, unsecured, due in quarterly installments of $25,464 through January 1, 2036	5,014,754	5,339,232
Total notes payable	11,104,248	13,457,581
Less unamortized discount	(1,710,003)	(1,732,608)
Net notes payable	$ 9,394,245	$ 11,724,973

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, 2022:

Years ending June 30:	
2023	$ 751,118
2024	764,599
2025	778,515
2026	792,880
2027	807,715
Thereafter	7,209,421
Total	$ 11,104,248

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, 2022 and 2021 were based on a 60 basis point spread over 30 year treasury bills, which was 2.67% and 2.01%, respectively.

10. Operating Lease Commitments

The Organization has a long-term operating lease for office space effective January 1, 2022 for a term of three years with the option to extend for one additional year. The Organization also leases certain office equipment. Total rent expense for all operating leases was approximately $31,000 and $28,000 for the years ended June 30, 2022 and 2021, respectively. Minimum future rental payments under noncancelable operating leases is as follows:

Years ending June 30:		
2023	$	65,424
2024		65,424
2025		33,116
Total	$	163,964

11. Concentrations

During the years ended June 30, 2022 and 2021, the Organization received over 99% of its financing through one institution, Minnesota Housing Finance Agency. The Organization is current on all notes payable.

As of June 30, 2022 and 2021, approximately 55% and 57%, 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, 2022 and 2021.

12. Related Parties

Twin Cities Habitat for Humanity (TC-HFH) administers the Organization's payroll and employee benefit plans. At June 30, 2022 and 2021, the Organization owed TC-HFH $34,392 and $30,432, 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.

13. 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 $10,066 and $9,880 for the years ended June 30, 2022 and 2021, respectively.