Habitat for Humanity of Kent County, Inc.

Financial Report

June 30, 2022

Contents

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Independent Auditor's Report

To the Board of Directors
Habitat for Humanity of Kent County, Inc.

Opinion

We have audited the financial statements of Habitat for Humanity of Kent County, Inc. (Habitat), which comprise the balance sheet as of June 30, 2022 and 2021 and the related statements of activities and changes in net assets, functional expenses, and cash flows 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 Habitat as of June 30, 2022 and 2021 and the changes in its net assets, functional expenses, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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 *Auditor's Responsibilities for the Audits of the Financial Statements* section of our report. We are required to be independent of Habitat and to meet our 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 accounting principles generally accepted in the United States of America 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 Habitat's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.

Auditor’s Responsibilities for the Audits 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 auditor's 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 audits 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.

To the Board of Directors
Habitat for Humanity of Kent County, Inc.

In performing audits in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audits.
- 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 audits 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 Habitat'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 Habitat'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 audits, significant audit findings, and certain internal control-related matters that we identified during the audits.

Plante & Moran, PLLC

September 22, 2022

Balance Sheet

June 30, 2022 and 2021

	2022	2021
Assets		
Cash and cash equivalents	$ 2,137,573	$ 3,482,635
Unconditional promises to give and other receivables - Net (Note 3)	1,182,786	985,631
Inventory	673,155	639,612
Homes under construction - Net	2,853,592	1,323,760
Grants receivable	-	2,000
Restricted cash	37,180	57,914
Investments in joint ventures (Note 15)	2,706,737	2,706,747
Employee Retention Credit receivable (Note 2)	1,042,898	-
Other assets	58,948	46,395
Non-interest-bearing mortgage notes receivable (Note 4)	7,577,637	7,913,296
Property held for sale or future home development - Net	740,319	469,438
Right-of-use operating lease assets (Note 10)	44,651	-
Finance lease assets (Note 10)	164,338	-
Beneficial interest in funds held at a community foundation (Note 5)	127,689	143,131
Property and equipment - Net (Note 6)	1,691,168	1,933,363
Total assets	**$ 21,038,671**	**$ 19,703,922**
Liabilities and Net Assets		
Liabilities		
Accounts payable	$ 257,799	$ 168,725
Deferred revenue (Note 15)	37,180	57,914
Accrued expenses	307,239	303,667
Lease liability - Operating (Note 10)	46,220	-
Lease liabilities - Finance (Note 10)	164,193	-
Debt - Net (Note 8)	3,703,978	4,595,227
Total liabilities	4,516,609	5,125,533
Net Assets		
Without donor restrictions	14,507,115	12,825,164
With donor restrictions (Notes 5 and 9)	2,014,947	1,753,225
Total net assets	16,522,062	14,578,389
Total liabilities and net assets	**$ 21,038,671**	**$ 19,703,922**

See notes to financial statements.

Statement of Activities and Changes in Net Assets

Years Ended June 30, 2022 and 2021

	2022			2021		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support						
Cash contributions	$ 1,268,696	$ 640,166	$ 1,908,862	$ 654,338	$ 354,799	$ 1,009,137
In-kind contributions (Note 17)	199,349	-	199,349	286,217	-	286,217
Federal grant revenue	3,968	-	3,968	21,957	-	21,957
ReStore revenue	337,439	-	337,439	424,745	-	424,745
In-kind ReStore revenue (Note 17)	990,480	-	990,480	1,049,872	-	1,049,872
Mortgage discount amortization	866,566	-	866,566	875,646	-	875,646
Transfers to homeowners - Net of discount mortgage originations of $566,278 and $1,703,525 for June 30, 2022 and 2021, respectively	1,258,722	-	1,258,722	1,607,475	-	1,607,475
Miscellaneous income	258,412	-	258,412	103,123	-	103,123
Paycheck Protection Program loan forgiveness (Note 8)	772,633	-	772,633	772,632	-	772,632
Employee Retention Credit (Note 2)	1,042,898	-	1,042,898	-	-	-
Interest income	4,298	-	4,298	4,584	-	4,584
Total revenue and support	7,003,461	640,166	7,643,627	5,800,589	354,799	6,155,388
Net Assets Released from Restrictions	378,444	(378,444)	-	1,559,621	(1,559,621)	-
Total revenue, support, and net assets released from restrictions	7,381,905	261,722	7,643,627	7,360,210	(1,204,822)	6,155,388
Expenses						
Program services:						
Construction and program services	3,249,968	-	3,249,968	5,586,207	-	5,586,207
ReStore	1,184,647	-	1,184,647	1,216,182	-	1,216,182
Total program services	4,434,615	-	4,434,615	6,802,389	-	6,802,389
Support services:						
Management and general	752,165	-	752,165	745,167	-	745,167
Fundraising	513,174	-	513,174	543,833	-	543,833
Total support services	1,265,339	-	1,265,339	1,289,000	-	1,289,000
Total expenses	5,699,954	-	5,699,954	8,091,389	-	8,091,389
Increase (Decrease) in Net Assets	1,681,951	261,722	1,943,673	(731,179)	(1,204,822)	(1,936,001)
Net Assets - Beginning of year	12,825,164	1,753,225	14,578,389	13,556,343	2,958,047	16,514,390
Net Assets - End of year	**$ 14,507,115**	**$ 2,014,947**	**$ 16,522,062**	**$ 12,825,164**	**$ 1,753,225**	**$ 14,578,389**

See notes to financial statements.

Statement of Functional Expenses

Year Ended June 30, 2022

	Program Services			Support Services			
	Construction and Program Services	ReStore	Total	Management and General	Fundraising	Total	Total
Cost of homes transferred	$ 1,694,818	$ -	$ 1,694,818	$ -	$ -	$ -	$ 1,694,818
Salaries and benefits	1,132,345	641,260	1,773,605	487,500	425,249	912,749	2,686,354
Professional fees	3,343	836	4,179	128,189	2,565	130,754	134,933
Postage printing promotions	7,655	8,500	16,155	785	19,528	20,313	36,468
Occupancy	77,288	133,071	210,359	12,652	12,503	25,155	235,514
Depreciation and amortization	61,068	79,424	140,492	13,847	13,767	27,614	168,106
HFHI tithe	90,000	-	90,000	-	-	-	90,000
Uncollectible pledges	-	-	-	-	(3,800)	(3,800)	(3,800)
Insurance	33,188	9,569	42,757	2,639	1,203	3,842	46,599
Transportation and travel	7,767	17,922	25,689	802	297	1,099	26,788
Office supplies and equipment	33,805	25,084	58,889	17,682	26,779	44,461	103,350
Interest	249	5,988	6,237	56,652	69	56,721	62,958
Telephone	15,937	14,368	30,305	3,425	3,419	6,844	37,149
Volunteer and donor recognition	9,464	159	9,623	884	(5)	879	10,502
Construction supplies and tools	9,235	172	9,407	-	-	-	9,407
Bank charges	25,812	39,670	65,482	5,655	2,961	8,616	74,098
Cost of purchased inventory	-	192,513	192,513	-	-	-	192,513
Training and conferences	11,043	4,993	16,036	4,902	3,257	8,159	24,195
Dues and memberships	13,062	5,288	18,350	4,845	3,090	7,935	26,285
Employee relations	5,868	3,400	9,268	1,294	1,341	2,635	11,903
Other	18,021	2,430	20,451	10,412	951	11,363	31,814
Total functional expenses	**$ 3,249,968**	**$ 1,184,647**	**$ 4,434,615**	**$ 752,165**	**$ 513,174**	**$ 1,265,339**	**$ 5,699,954**

See notes to financial statements.

Statement of Functional Expenses

Year Ended June 30, 2021

	Program Services			Support Services			
	Construction and Program Services	ReStore	Total	Management and General	Fundraising	Total	Total
Cost of homes transferred	$ 4,084,837	$ -	$ 4,084,837	$ -	$ -	$ -	$ 4,084,837
Salaries and benefits	1,027,155	635,221	1,662,376	509,054	425,517	934,571	2,596,947
Professional fees	42,018	688	42,706	105,006	1,420	106,426	149,132
Postage printing promotions	3,466	8,280	11,746	635	15,798	16,433	28,179
Occupancy	80,024	132,981	213,005	9,078	10,213	19,291	232,296
Depreciation	73,258	59,846	133,104	16,250	18,281	34,531	167,635
HFHI tithe	90,000	-	90,000	-	-	-	90,000
Uncollectible pledges	-	-	-	-	14,925	14,925	14,925
Insurance	40,741	13,617	54,358	2,528	1,278	3,806	58,164
Transportation and travel	12,627	25,149	37,776	485	-	485	38,261
Office supplies and equipment	33,212	24,980	58,192	16,150	40,831	56,981	115,173
Interest	1,803	11,061	12,864	64,135	-	64,135	76,999
Telephone	10,683	12,320	23,003	3,102	4,133	7,235	30,238
Volunteer and donor recognition	7,611	15	7,626	1,147	76	1,223	8,849
Construction supplies and tools	10,966	164	11,130	-	-	-	11,130
Bank charges	28,696	39,004	67,700	4,089	3,907	7,996	75,696
Cost of purchased inventory	-	240,255	240,255	-	-	-	240,255
Training and conferences	2,037	1,263	3,300	1,102	1,353	2,455	5,755
Dues and memberships	13,586	4,844	18,430	3,885	2,840	6,725	25,155
Employee relations	3,461	2,768	6,229	1,205	1,258	2,463	8,692
Other	20,026	3,726	23,752	7,316	2,003	9,319	33,071
Total functional expenses	**$ 5,586,207**	**$ 1,216,182**	**$ 6,802,389**	**$ 745,167**	**$ 543,833**	**$ 1,289,000**	**$ 8,091,389**

See notes to financial statements.

Statement of Cash Flows

Years Ended June 30, 2022 and 2021

	2022	2021
Cash Flows from Operating Activities		
Increase (decrease) in net assets	$ 1,943,673	$ (1,936,001)
Adjustments to reconcile increase (decrease) in net assets to net cash and cash equivalents from operating activities:		
Depreciation	134,529	167,635
Discount on non-interest-bearing mortgage notes	566,278	1,703,525
Mortgage discount amortization	(866,566)	(875,646)
Donated inventory	(131,610)	(96,257)
Donated land for home construction	-	(164,000)
Donated services for home construction	(67,739)	(25,960)
Change in beneficial interest	15,442	(31,206)
Bad debt (recovery) expense	(3,800)	14,925
Amortization of debt issuance fees	29,509	37,120
Income on equity method investments	(27,025)	(27,028)
Paycheck Protection Program loan forgiveness	(772,633)	(772,632)
Finance lease amortization	33,577	-
Operating lease amortization	34,429	-
Changes in operating assets and liabilities that (used) provided cash and cash equivalents:		
Unconditional promises to give	(193,355)	1,321,327
Grants receivable	2,000	37,174
Inventory	98,067	128,069
Deferred revenue	(20,734)	(28,345)
Homes under construction	(2,441,357)	(1,294,707)
Other assets	(12,553)	38,268
Property held for sale or future home development	(270,881)	952,171
Accounts payable and accrued expenses	92,646	94,153
Lease liability - Operating	(32,880)	-
Employee Retention Credit receivable	(1,042,898)	-
Net cash and cash equivalents used in operating activities	(2,933,881)	(757,415)
Cash Flows from Investing Activities		
Purchase of property and equipment	(43,931)	(159,220)
Collections on mortgages receivable	1,615,211	1,739,596
Distributions from equity method investments	27,035	27,040
Net cash and cash equivalents provided by investing activities	1,598,315	1,607,416
Cash Flows from Financing Activities		
Payments on long-term debt	(2,608)	(278,660)
Proceeds from long-term debt	-	923,429
Principal repayments on financing leases	(27,622)	-
Net cash and cash equivalents (used in) provided by financing activities	(30,230)	644,769
Net (Decrease) Increase in Cash and Cash Equivalents	(1,365,796)	1,494,770
Cash and Cash Equivalents - Beginning of year	3,540,549	2,045,779
Cash and Cash Equivalents - End of year	**$ 2,174,753**	**$ 3,540,549**
Classification of Cash and Cash Equivalents		
Cash and cash equivalents	$ 2,137,573	$ 3,482,635
Restricted cash	37,180	57,914
Total cash and cash equivalents	**$ 2,174,753**	**$ 3,540,549**

See notes to financial statements.

Note 1 - Nature of Organization

Habitat for Humanity of Kent County, Inc. (Habitat) is an affiliate of Habitat for Humanity International, Inc., a nondenominational Christian organization. The mission of Habitat for Humanity of Kent County, Inc. is, by seeking to put God's love into action, to bring people together to build homes, communities, and hope. In addition, Habitat cooperates with other charitable organizations in working to develop better living conditions for economically disadvantaged people. Although Habitat for Humanity International, Inc. assists with informational resources, training, publications, and prayer support and in other ways, Habitat is primarily and directly responsible for its own operations.

Habitat's primary program activity is the construction, renovation, sale, and financing of houses for individuals in need in Kent, eastern Ottawa, and northern Allegan counties. These individuals participate in the construction of their own homes and other homes constructed through the efforts of Habitat.

Habitat also operates two stores (ReStore) that sell affordable home building materials and furnishings. A significant amount of ReStore inventory is donated.

Note 2 - Significant Accounting Policies

Basis of Presentation

The financial statements of Habitat have been prepared on the basis of generally accepted accounting principles (GAAP). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect amounts reported in the financial statements. Actual results could differ from those estimates.

Cash and Cash Equivalents

Habitat considers all investments with an original maturity of three months or less when purchased to be cash equivalents. Habitat's cash balance deposits are fully insured up to Federal Deposit Insurance Corporation (FDIC) limits. Amounts on deposit in excess of such limits were approximately $1,877,773 and $2,824,500 as of June 30, 2022 and 2021, respectively.

Restricted Cash

Restricted cash relates to cash balances associated with the New Markets Tax Credit (NMTC) investments.

Promises to Give

Unconditional promises to give, consisting of individual, foundation, church, and corporate sponsorships, are recognized as revenue when the gifts' underlying promises are received by Habitat. Unconditional promises to give are stated at the amount management expects to collect from outstanding balances, discounted to present value, using a 2 percent discount rate.

Habitat uses the allowance method to account for uncollectible promises to give. The allowance is calculated using an estimated percentage of outstanding balances based on management's experience. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to unconditional promises to give.

Grants Receivable

Grants receivable consist of amounts due from various funding sources for the purpose of funding home construction. The grants provide for reimbursement of qualifying costs incurred, as defined in the underlying grant agreements. Management believes the balances in grants receivable to be fully collectible.

Note 2 - Significant Accounting Policies (Continued)

The Coronavirus Aid, Relief, and Economic Security (CARES) Act of 2020 introduced the Employee Retention Credit (ERC) as pandemic relief for eligible organizations. The ERC is a refundable credit against certain employment taxes and qualifies as a government grant. Under generally accepted accounting principles, government grants are recognized as revenue in the period in which an organization substantially overcomes all measurable barriers to be entitled to the funding. Management has determined that the measurable barriers that must be overcome for entitlement to the ERC funding are qualifying for the credits based on meeting the threshold for gross receipts decline in 2021 and 2020 compared to 2019. For the year ended June 30, 2022, Habitat determined these conditions have been met and recognized $1,042,898 of ERC revenue on the statement of activities and changes in net assets and recognized a corresponding receivable on the balance sheet.

Habitat’s ERC claim is subject to review by the Internal Revenue Service (IRS) within the applicable statute of limitations. If a portion or all of the ERC is determined to be ineligible upon IRS review, Habitat would be required to return the ineligible portion on demand and could potentially be subject to penalties and interest on unpaid employment taxes.

Inventory

Inventory consists of home building materials used in the construction of Habitat's homes and items sold at the ReStores, a majority of which are donated and recorded at fair value at the time of donation and determined by the use of the first-in, first-out (FIFO) method of valuation.

Homes Under Construction

Costs incurred in conjunction with home construction are recorded as assets until the sale of the home with a reserve to bring them to the lower of cost or market.

Non-interest-bearing Mortgage Notes Receivable

Mortgage receivables consist of non-interest-bearing mortgages, which are secured by real estate and payable in monthly installments. Most of the mortgages have an original maturity of 15 to 30 years. These mortgages have been discounted at various rates ranging from 7.23 to 8 percent based on prevailing market rates at the inception of the mortgages. Interest income (amortization of the discount) is recorded over the lives of the mortgages.

An allowance for loan losses (the "allowance") is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

An allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, and prevailing economic conditions. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available. As of June 30, 2022 and 2021, no allowance is recorded, as management believes any uncollectible loan balances are secured by the related homes.

Deferred Revenue

Revenue related to the NMTC activity is recognized as income over the period of the agreement.

Note 2 - Significant Accounting Policies (Continued)

Property Held for Sale or Future Home Development

Property held for sale or future home development consists of (a) homes that have been reacquired due to collection problems with the homeowner and are expected to be transferred to new homeowners within the next year, (b) purchased or donated land that will be developed for future home construction, (c) homes that have been reacquired from previous homeowners that will be sold on the open market, and (d) properties acquired for renovations to be sold to new homeowners within the next year. Properties held are valued at the lower of cost or market value.

Debt Issuance Fees

Debt issuance fees are recorded as a reduction in the recorded balance of the outstanding debt. The costs are amortized over the life of the debt using the straight-line method and are reported as a component of interest expense. Debt issuance fees at June 30, 2022 and 2021 consist of $461,658 of fees paid in connection with the issuance of debt, as discussed in Note 8. The amortization portion of the interest expense was $29,509 and $37,120 in 2022 and 2021, respectively. Accumulated amortization was $214,177 and $184,668 at June 30, 2022 and 2021, respectively.

Property and Equipment

Property and equipment are recorded at cost when purchased or at fair value at the date of donation and are being depreciated on a straight-line basis over their estimated useful lives. Costs of maintenance and repairs are charged to expense when incurred.

Habitat reports gifts of property and equipment as support without donor restrictions unless explicit donor stipulations specify how the donated assets must be used. Gifts of property and equipment with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire property and equipment are reported as restricted support. Absent explicit donor stipulations about how long the property and equipment must be maintained, Habitat reports expirations of donor restrictions when the assets are placed in service.

Investment in Joint Ventures

Investments in joint ventures are valued utilizing the equity method of accounting. Impairment losses due to a decline in the value of the investment that is other than temporary are recognized when incurred. No impairment losses were recognized in 2022 or 2021 (see Note 15). Habitat recognizes its share of earnings in the statement of activities and changes in net assets, and any distributions received are recognized as a return of investment.

Classification of Net Assets

Net assets of Habitat are distinguished between contributions with donor-imposed restrictions and without donor-imposed restrictions depending on the presence and characteristics of donor-imposed restrictions limiting Habitat's ability to use or dispose of contributed assets or the economic benefits embodied in those assets.

Net assets without donor-imposed restrictions are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of Habitat. These net assets may be used at the discretion of the Habitat's management and the board of directors.

Net assets of Habitat received from donors who have specified the purpose for which or the timing of when the funds are to be spent and related earnings, as restricted for the intended purpose of the original donation, result in net assets with donor-imposed restrictions. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, related net assets are released to net assets without donor-imposed restrictions.

Note 2 - Significant Accounting Policies (Continued)

Earnings, gains, and losses on donor-restricted net assets are classified as net assets without donor restrictions unless specifically restricted by the donor or by applicable state law.

Contributions

Cash contributions revenue consists of contributions of cash and other assets, which are reported as revenue when received, measured at fair value. Donor promises to give in the future are recorded at the present value of estimated future cash flows.

Transfers to Homeowners

Transfers to homeowners represent the sale of houses by Habitat, an exchange transaction.

Habitat has a performance obligation to provide a completed home to the homebuyer. The performance obligations are satisfied at a point in time when the transfer of title to the homebuyer is complete, which occurs when the title and mortgages are signed at closing. It is at this time the homebuyer can move into the home, which demonstrates the transfer of control.

The transaction price is the third-party appraised value of the home reduced by the mortgage discount, as described in the notes above. The resulting mortgages are non-interest bearing and have been discounted based upon prevailing market rates for low-income housing at the inception of the mortgages.

Habitat offers a one-year warranty.

There are no contract liabilities or contract assets associated with these contacts recorded as of June 30, 2022 and 2021 or at the beginning of the year ended June 30, 2021.

Donated Services and Assets

In-kind contributions (primarily land, construction materials, and qualifying services) are recorded on receipt at fair value. Amounts that have been reported in the financial statements as voluntary donations of services are those services that create or enhance nonfinancial assets or require specialized skills provided by individuals possessing those skills that typically would be purchased if not provided by donation. Donated services and assets, excluding land, amounted to approximately $199,000 and $122,000 for the years ended June 30, 2022 and 2021, respectively. Donated land amounted to approximately $0 and $164,000 for the years ended June 30, 2022 and 2021, respectively.

A substantial number of volunteers have donated significant amounts of time to Habitat's program services without compensation; however, many of these services were not recognized as contributions in the financial statements because the recognition criteria outlined above were not met. The total number of persons who volunteered for the year ended June 30, 2022 was 3,041, totaling 12,800 volunteer hours. The total number of persons who volunteered for the year ended June 30, 2021 was 2,452, totaling 14,499 volunteer hours.

Revenue and Cost Recognition

ReStore revenue is recognized by Habitat upon purchase by customers. Restore revenue is recognized at the point in time when a customer makes a purchase, including making payment, and control of the selected items transfers to the customer.

The transaction price is deemed to be the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods. The transaction price is determined by Habitat and is approved and accepted by the customer at the point of acceptance of the contract or the purchase of the good.

Note 2 - Significant Accounting Policies (Continued)

In most cases, goods that customers purchase from Habitat may be returned within 14 days of receipt. Any consideration paid for those goods, whether before or after receipt, is refundable in full to customers until the return period expires. At the time revenue is recognized, Habitat estimates expected returns and excludes those amounts from revenue. Habitat also maintains appropriate accounts to reflect the effects of expected returns on Habitat’s financial position and periodically adjusts those accounts to reflect its actual return experience. In most cases, consideration paid for services that customers purchase from Habitat is nonrefundable. Therefore, at the time revenue is recognized, Habitat does not estimate expected refunds for services, nor does Habitat exclude any such amounts from revenue.

Functional Allocation of Expenses

The costs of providing program and support services have been reported on a functional basis in the statement of activities and changes in net assets. The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. Indirect costs have been allocated between the various program and support services based on management-determined estimates, such as full-time equivalents or number of workstations. Salaries and related expenses have been allocated based upon time and effort. Although the methods of allocation used are considered reasonable, other methods could be used that would produce a different amount.

Federal Income Taxes

Habitat is exempt from income tax under the provisions of Internal Revenue Code Section 501(c)(3). In addition, Habitat qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(2).

Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including September 22, 2022, which is the date the financial statements were available to be issued.

Upcoming Accounting Change

In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-13, *Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments*. The ASU includes changes to the accounting and measurement of financial assets, including Habitat's mortgage notes receivable, by requiring Habitat to recognize an allowance for all expected losses over the life of the financial asset at origination. This is different from the current practice where an allowance is not recognized until the losses are considered probable. The new guidance will be effective for Habitat's year ending June 30, 2024. Upon adoption, the ASU will be applied using a modified retrospective transition method to the beginning of the earliest period presented. Early adoption is permitted.

Note 2 - Significant Accounting Policies (Continued)

Adoption of New Accounting Pronouncements

As of July 1, 2021, Habitat adopted FASB ASU No. 2016-02, *Leases*. The ASU requires lessees to recognize a right-of-use asset and related lease liability for all leases, with an exception for short-term leases. Leases are classified as either financing or operating, with the classification affecting the pattern of expense recognition in the statement of activities and changes in net assets. Habitat adopted the new standard using the modified retrospective method to all applicable leases effective July 1, 2021. Modified retrospective adoption requires entities to apply the standard retrospectively to the beginning of period of adoption. There was no cumulative effect recorded as an adjustment to the opening balance of net assets at the date of initial application; however, an increase in expenses of approximately $1,500 is reported within management and general expenses on the statement of activities and changes in net assets as a result of adoption. Prior periods have not been adjusted. There was no significant impact on the results of operations, cash flows, and expenses for the year ended June 30, 2022 as a result of adopting the new guidance.

As of July 1, 2021, Habitat adopted FASB ASU No. 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The ASU provides for additional disclosures to support clearer financial information about important noncash contributions that charities and other not-for-profit organizations receive, known as gifts-in-kind (GIKs). Contributed nonfinancial assets are reported by category, within the financial statements, and there are additional disclosures included for each category, including whether the nonfinancial assets were monetized or used during the reporting period, the policy for monetizing nonfinancial contributions, and a description of the fair value techniques used to arrive at a fair value measurement. The new guidance was applied using the retrospective method.

Note 3 - Unconditional Promises to Give and Other Receivables

Unconditional promises to give and other receivables consist of the following:

	2022	2021
Receivable - Home sponsorships and Bright Futures campaign	$ 1,183,686	$ 992,731
Allowance for present value and reserve	(900)	(7,100)
Net	$ 1,182,786	$ 985,631

Of the $1,183,686 receivable balance as of June 30, 2022, $967,353 is due in 2023, $216,333 is due in 2024, and $0 is due in 2025 and 2026.

Note 4 - Non-interest-bearing Mortgage Notes

Habitat provides non-interest-bearing mortgage notes for individual homeowners with maturities at various dates through May 2050. Unamortized discounts are amortized using the effective interest rate method over the life of the mortgage at interest rates ranging from 7.23 to 8 percent. Non-interest-bearing mortgage notes are periodically evaluated for collectibility based on homeowners' current financial conditions. Provisions for losses are determined on the basis of known risks in the mortgages held and the estimated value of underlying collateral.

Habitat considers a mortgage note receivable to be impaired when, based upon current information and events, it believes it is probable that Habitat will be unable to collect all amounts due according to the contractual terms of the mortgage agreement. Individual mortgages are assessed for impairment based on changes in borrower-specific financial conditions. Habitat did not have any mortgages considered to be impaired as of June 30, 2022 and 2021.

Note 4 - Non-interest-bearing Mortgage Notes (Continued)

Non-interest-bearing Mortgage Notes

Non-interest-bearing mortgage notes outstanding as of June 30, 2022 and 2021 are as follows:

	2022	2021
Mortgage notes	$ 13,756,908	$ 14,392,856
Unamortized discounts	(6,179,271)	(6,479,560)
Balance at year end	$ 7,577,637	$ 7,913,296

Financing Loan Receivables Aging

The following table sets forth the aging of the customer financing loan receivables as of June 30, 2022:

Delinquency Period					
30-59 Days	60-89 Days	Greater Than 90 Days	Total Delinquent Mortgage Balances	Current	Total Balance at June 30, 2022
$ 261,965	$ 210,621	$ 189,409	$ 661,995	$ 6,915,642	$ 7,577,637

Allowance for Loan Losses - Non-interest-bearing Mortgage Notes

An allowance for loan losses (the "allowance") is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

An allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, and prevailing economic conditions. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available. As of June 30, 2022 and 2021, no allowance is recorded, as management believes any uncollectible loan balances are secured by the related homes.

Note 5 - Beneficial Interest in Funds Held at a Community Foundation

Beneficial interest in funds held at a community foundation includes amounts held by Grand Rapids Community Foundation (GRCF) for the benefit of Habitat. Habitat has accounted for the transfer of such assets as a beneficial interest in funds held by a community foundation. GRCF refers to such funds as agency fund endowments. GRCF maintains variance power and legal ownership of the funds and, as such, continues to report the funds as assets of GRCF. However, a liability has been established by GRCF for the fair value of the funds, which is generally equivalent to the present value of future payments expected to be made to Habitat. The current value of these funds at June 30, 2022 and 2021 was $127,689 and $143,131, respectively, of which $80,925 and $80,425, respectively, is included in net assets with donor restrictions on the balance sheet and is to be held in perpetuity.

Certain contributions have been made directly to GRCF to benefit Habitat. Contributions can be made to the fund, but only expendable income is available to Habitat. GRCF maintains variance power, which, as a result, requires that the assets it holds not be recorded as assets of Habitat. The value of the funds held at GRCF for the benefit of Habitat was $6,665 and $7,497 at June 30, 2022 and 2021, respectively.

Note 6 - Property and Equipment

Property and equipment are summarized as follows:

	2022	2021	Depreciable Life - Years
Land	$ 100,433	$ 100,433	-
Buildings	2,176,174	2,176,174	10-40
Building improvements	241,760	235,406	10-40
Furniture and fixtures	449,935	472,109	3-10
Transportation equipment	260,714	421,941	3
Machinery and equipment	293,967	293,967	3-5
Office equipment	182,275	186,025	3-10
Total cost	3,705,258	3,886,055	
Accumulated depreciation	2,014,090	1,952,692	
Net property and equipment	$ 1,691,168	$ 1,933,363	

Depreciation expense was $134,529 for 2022 and $167,635 for 2021.

Note 7 - Line of Credit

Habitat has two unsecured lines of credit with two banks, each with available borrowings of $500,000 at June 30, 2022 and 2021. The first $500,000 line of credit to a bank, due on demand, bears interest at the prime rate (the prime rate was 5.50 percent at June 30, 2022 and 3.25 percent at June 30, 2021) and expires on December 5, 2022. The second $500,000 line of credit to a bank, due on demand, bears interest at the daily LIBOR plus 3.00 percent (an effective rate of 4.79 percent at June 30, 2022 and 3.10 percent at June 30, 2021) and expired on August 11, 2022 but was subsequently renewed through August 11, 2023. Habitat had $0 of outstanding borrowings as of June 30, 2022 and 2021.

Note 8 - Debt

The following is a summary of debt at June 30:

	2022	2021
Note payable to a community development entity for which the net proceeds, after funding investments in joint ventures, were for the purpose of financing home construction projects, secured by substantially all assets acquired with the loan proceeds, due in December 2044. Debt requires interest-only payments beginning in May 2015 at a rate of 0.68 percent. Semiannual principal reductions begin in May 2024 for a period of 21 years. See Note 15 for additional information	$ 2,124,628	$ 2,124,628
Note payable to a community development entity for which the net proceeds, after funding investments in joint ventures, were for the purpose of financing home construction projects, secured by substantially all assets acquired with the loan proceeds, due in April 2048. Debt requires interest-only payments beginning in May 2018 at a rate of 0.68 percent. Semiannual principal reductions begin in November 2025 for a period of 23 years. See Note 15 for additional information	1,825,938	1,825,938
Obligation with a financial institution payable in monthly installments ranging from $225 to $286. Obligation is due in August 2022, including interest at 3.95 percent	893	3,501

Note 8 - Debt (Continued)

		2022		2021
Capital lease obligations with a financial institution payable in monthly installments ranging from $1,100 to $1,350. Obligation is due in December 2025 and December 2027, including interest ranging from 11.4 to 17.8 percent. See Note 10 for additional information	$	-	$	145,517
Note payable to a bank through the Paycheck Protection Program. This loan was obtained based on the Coronavirus Aid, Relief, and Economic Security Act and administered by the Small Business Administration (SBA), which also has issued a guarantee to the bank for the loan. The note is unsecured and contains a 10-month deferral period that expired in November 2021 during which no principal or interest payments were due. Additionally, the loan may be eligible for forgiveness, subject to the SBA acceptance of an application for forgiveness submitted by Habitat. Following the expiration of the deferral period, any portion of the note not forgiven requires monthly principal and interest installments based on an interest rate of 1.00 percent through February 2026. This note payable was forgiven in full on November 19, 2021		-		772,633
Total		3,951,459		4,872,217
Less debt issuance fees - Net		247,481		276,990
Net long-term debt	$	3,703,978	$	4,595,227

The debt service requirements, including noncash debt forgiveness, of the debt based on the terms of the agreements for the succeeding years are as follows:

Years Ending		Amount
2023	$	893
2024		50,586
2025		101,173
2026		188,122
2027		188,122
Thereafter		3,422,563
Total	$	3,951,459

Note 9 - Net Assets with Donor Restrictions

Net assets with donor restrictions consist of contributions with a time restriction or restricted for home construction and rehabilitation costs of $1,934,022 and $1,672,800 at June 30, 2022 and 2021, respectively. In addition, net assets with donor restrictions include $80,925 and $80,425 of funds held at a community foundation at June 30, 2022 and 2021, respectively. See Note 5 for additional details.

Note 10 - Leases

Habitat is obligated under operating leases for the North ReStore Building, expiring at October 31, 2023. The right-of-use asset and related lease liability have been calculated using a discount rate of 3.25 percent. The leases require Habitat to pay taxes, insurance, utilities, and maintenance costs.

Habitat leases various vehicles and printers under long-term lease arrangements that are classified as finance leases. Under the terms of the lease agreements, payments ranging from approximately $695 to $1,400 are due monthly through November 2027. The right-of-use asset and related lease liability have been calculated using a discount rate of 3.25 percent.

Note 10 - Leases (Continued)

Expenses recognized under these leases for the year ended June 30, 2022 consist of the following:

Finance lease cost:	
Amortization of finance lease assets	$ 33,577
Interest on lease liabilities	5,246
Operating lease cost	32,880
Total lease cost	$ 71,703

Habitat has operating leases, with a lease term of one year or less, that Habitat has elected to account as short-term leases. As these leases are short-term leases, they are not included in the right-of-use asset and lease liability. Total expense related to short-term leases was $9,361 for June 30, 2022.

Future minimum rent on noncancelable leases as of June 30, 2022 for each of the next five years, and in the aggregate, is as follows:

Years Ending June 30	Operating Leases	Direct Financing Leases	Total Payments
2023	$ 37,593	$ 39,314	$ 76,907
2024	9,650	39,314	48,964
2025	-	39,314	39,314
2026	-	31,078	31,078
2027	-	21,022	21,022
Thereafter	-	7,156	7,156
Total	47,243	177,198	224,441
Less amount representing interest	1,023	13,005	14,028
Present value of net minimum lease payments	46,220	164,193	210,413
Less current obligations	36,622	34,488	71,110
Long-term obligations under capital leases	$ 9,598	$ 129,705	$ 139,303

Note 11 - Cash Flows

Cash paid for interest was $33,449 and $39,879 for the years ended June 30, 2022 and 2021, respectively. Cash paid for financing lease interest was $5,246 for the year ended June 30, 2022.

Significant noncash activity for the years ended June 30, 2022 and 2021 is as follows:

	2022	2021
Establishment of non-interest-bearing mortgage notes receivable	$ 979,264	$ 2,935,446
Lease accounting adoption under ASC 842 resulting in reclassification of debt to lease liabilities - Finance	145,517	-
Lease accounting adoption under ASC 842 resulting in reclassification of property and equipment to finance lease assets	151,597	-
Recognition of new lease liability and finance lease asset	38,260	-
Adoption of lease standard right-of-use operating lease asset and lease liability - Operating	79,100	-

Note 12 - Related Party Transactions

Habitat tithes a portion of its cash contributions without donor restrictions (excluding in-kind contributions and those designated exclusively for Habitat) to Habitat for Humanity International, Inc. These funds are used to construct homes for families in need around the world. Habitat contributed $90,000 for the years ended June 30, 2022 and 2021. Such amounts are included in program services expenses in the accompanying statement of activities and changes in net assets.

Note 13 - Retirement Plan

Habitat participates in a tax-deferred annuity plan qualified under Section 403(b) of the Internal Revenue Code. The plan covers all employees. Employees may make contributions to the plan up to the maximum amount allowed by the Internal Revenue Code if they wish. Habitat contributions for the years ended June 30, 2022 and 2021 were $97,143 and $89,062, respectively.

Note 14 - Fair Value

Accounting standards require certain assets and liabilities be reported at fair value in the financial statements and provide a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the valuation techniques and inputs used to measure fair value.

Fair values determined by Level 1 inputs use quoted prices in active markets for identical assets or liabilities that Habitat has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets and liabilities in active markets and other inputs, such as interest rates and yield curves, that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset or liability. These Level 3 fair value measurements are based primarily on management’s own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset or liability. Significant Level 3 inputs include pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset or liability.

In instances where inputs used to measure fair value fall into different levels of the fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. Habitat’s assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

Habitat holds a beneficial interest in the assets of a community foundation, which was determined primarily based on Level 3 inputs. Habitat estimates the fair value of these investments based on the underlying value of the investments making up the investment pool. These investments include fixed-income and equity investments.

Income from the community foundation, which substantially consists of interest, dividends, and realized gains, is to be used for unrestricted purposes. Habitat has recorded an asset in the amount of the present value of future benefits, which approximates the market value of the future community foundation's pooled investments. Annually, a percentage of the principal balance in the account becomes available to Habitat. Habitat has a process in place to select the appropriate valuation technique and unobservable inputs to perform Level 3 fair value measurements. This process includes review of information and communications received from the community foundation. Significant increases or decreases in any of the inputs in isolation would result in significantly lower or higher fair value measurements.

Note 15 - Investment in Joint Ventures

In 2015, Habitat for Humanity of Kent County, Inc. participated in the New Markets Tax Credit program. Program compliance requirements included creation of a promissory note and investment in a qualified CDE. Habitat invested, along with five other Habitat affiliates, in a joint venture (HFHI NMTC SUB-CDE I, LLC) with 9.49 percent ownership, which loaned the funds to HFHI Investment Fund I, LLC, an affiliate of HFHI NMTC Leverage Lender 2013-1, LLC, to construct low-income housing with NMTC financing. NMTC financing allows an entity to receive a loan or investment capital from outside investors that will receive New Markets Tax Credit to be applied against its federal tax liability. As a result, Habitat has invested $1,466,749 and was able to secure a 30-year loan in the amount of $2,124,628, payable to a community development entity (an affiliate of the joint venture). The loan proceeds are to be used to fund the initial investment and for the purpose of constructing and selling qualified housing properties to low-income residents. The loan accrues interest only for years 1 through 10 at a reduced rate of 0.689130 percent. Beginning in year 10 through year 30, the principal balance of the loan is reduced by 20-year amortization. Subsequent to June 30, 2022, Habitat signed an agreement for the dissolution and liquidation of this New Markets Tax Credit agreement.

In 2018, Habitat for Humanity of Kent County, Inc. participated in another NMTC program. Program compliance requirements included creation of a promissory note and investment in a qualified CDE. Habitat invested, along with four other Habitat affiliates, in a joint venture (HFHI NMTC SUB-CDE III, LLC) with 21.08 percent ownership, which loaned the funds to Twain Investment Fund 306 LLC, an affiliate of HFHI NMTC Leverage Lender 2018-1, LLC, to construct low-income housing with NMTC financing. NMTC financing allows an entity to receive a loan or investment capital from outside investors that will receive New Markets Tax Credit to be applied against its federal tax liability. As a result, Habitat has invested $1,239,988 and was able to secure a 30-year loan in the amount of $1,825,938, payable to a community development entity (an affiliate of the joint venture). The loan proceeds are to be used to fund the initial investment and for the purpose of constructing and selling qualified housing properties to low-income residents. The loan accrues interest only for years 1 through 8 at a reduced rate of 0.679239 percent. Beginning in year 8 through year 30, the principal balance of the loan is reduced by 23-year amortization.

At the end of the compliance period for all NMTC programs, there is a put option for the participants to acquire the investment funds referred to above and to fully extinguish the debt with the settlement of each participant's related investment. At this time, management estimates there will not be significant costs to Habitat if the put option is exercised. However, until the put option is exercised, Habitat must report the loans as if they will be paid over the full terms or until such time as the notes are actually forgiven. Habitat received a guarantee fee earned over the compliance periods for each of the NMTC programs and has recorded a net liability (deferred revenue) of $37,180 and $57,914 for the unearned fees during the years ended June 30, 2022 and 2021, respectively.

Note 16 - Liquidity and Availability of Resources

The following reflects Habitat's financial assets as of June 30, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the balance sheet date:

	2022	2021
Cash and cash equivalents	$ 2,137,573	$ 3,482,635
Unconditional promises to give and other receivables	967,353	552,158
Grants receivable	-	2,000
Non-interest-bearing mortgage notes receivable	979,040	1,018,736
Employee Retention Credit receivable	1,042,898	-
Spendable allocation for beneficial interest at community foundation	25,525	20,180
Financial assets available to meet cash needs for general expenditures within one year	$ 5,152,389	$ 5,075,709

Note 16 - Liquidity and Availability of Resources (Continued)

Habitat is supported by restricted contributions. Because a donor's restriction requires resources to be used in a particular manner or in a future period, Habitat must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditure within one year.

As part of Habitat's liquidity management, it structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, Habitat invests cash in excess of daily requirements in an interest-bearing money market account. To help manage unanticipated liquidity needs, Habitat has committed lines of credit in the amount of $1,000,000 for June 30, 2022 and 2021 that it could draw upon.

Note 17 - In-kind Contributions

In-kind donations recognized by Habitat for the years ended June 30, 2022 and 2021 are as follows:

	2022	2021
Professional and other services	$ 67,739	$ 25,960
Building materials and supplies	131,610	96,257
Real estate	-	164,000
ReStore donations	990,480	1,049,872
Total in-kind donations	$ 1,189,829	$ 1,336,089

Professional and other services are those services that create or enhance nonfinancial assets or require specialized skills provided by individuals possessing those skills that typically would be purchased if not provided by donation. Most relate to specialized trades utilized in the construction of homes to be sold in Habitat's homeownership programs. Habitat values the services based on estimates of what would be recorded for purchasing similar services.

Building materials and supplies are those materials and supplies utilized primarily in the construction of homes but also in the operation of the business. Habitat values the materials based on estimates of what would be recorded for purchasing similar materials.

Real estate includes vacant parcels of land or homes. Habitat values the real estate based on an appraisal of the property. Real estate will be evaluated to determine if it is suitable for program use; otherwise, it will be monetized. The real estate recorded in the year ended June 30, 2021 was monetized.

ReStore donations include nonfinancial assets of household furnishing, building supplies, and materials, without donor imposed restrictions, that are monetized as soon as possible through sales at its ReStores. The value assigned to these items are the expected sale price to the customer and are reported in ReStore revenue. Nonfinancial assets included in ReStore revenue were $990,480 and $1,049,872 for the years ended June 30, 2022 and 2021, respectively.

Unless otherwise noted, contributed nonfinancial assets did not have donor-imposed restrictions.