# Habitat for Humanity of Kent County, Inc.

**Financial Report**

**June 30, 2019**

# Contents

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## Independent Auditor's Report

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

We have audited the accompanying financial statements of Habitat for Humanity of Kent County, Inc. (Habitat), which comprise the balance sheet as of June 30, 2019 and 2018 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.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

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

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

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

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Habitat for Humanity of Kent County, Inc. as of June 30, 2019 and 2018 and the change 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.

### *Emphasis of Matter*

As described in Note 2 to the financial statements, Habitat adopted the provisions of Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities*, for the year ended June 30, 2019, applied retrospectively to all years presented. Our opinion is not modified with respect to this matter.

Plante & Moran, PLLC

September 19, 2019

# Balance Sheet

**June 30, 2019 and 2018**

| | 2019 | 2018 |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | $ 625,853 | $ 196,318 |
| Unconditional promises to give and other receivables - Net (Note 3) | 4,180,165 | 3,517,336 |
| Inventory | 715,167 | 757,635 |
| Homes under construction - Net | 3,101,207 | 2,322,874 |
| Grants receivable | 359,047 | 170,252 |
| Restricted cash | 116,355 | 166,118 |
| Investments in joint ventures (Note 15) | 2,701,253 | 4,307,914 |
| Other assets | 100,561 | 44,928 |
| Noninterest-bearing mortgage notes receivable (Note 4) | 7,624,914 | 7,621,056 |
| Property held for sale or future home development - Net | 1,530,968 | 2,595,490 |
| Beneficial interest in funds held at a community foundation (Note 5) | 117,004 | 90,722 |
| Property and equipment - Net (Note 6) | 2,097,958 | 2,242,236 |
| Total assets | **$ 23,270,452** | **$ 24,032,879** |
| **Liabilities and Net Assets** | | |
| **Liabilities** | | |
| Accounts payable | $ 261,943 | $ 350,639 |
| Deferred revenue (Note 15) | 114,605 | 165,468 |
| Accrued expenses | 284,580 | 257,869 |
| Debt - Net (Note 8) | 3,873,337 | 6,468,396 |
| Total liabilities | 4,534,465 | 7,242,372 |
| **Net Assets** | | |
| Net assets without donor restrictions | 13,813,979 | 13,104,416 |
| Net assets with donor restrictions (Notes 5 and 9) | 4,922,008 | 3,686,091 |
| Total net assets | 18,735,987 | 16,790,507 |
| Total liabilities and net assets | **$ 23,270,452** | **$ 24,032,879** |

See notes to financial statements.

# Statement of Activities and Changes in Net Assets

## Years Ended June 30, 2019 and 2018

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | Without Donor Restrictions | With Donor Restrictions | Total | Without Donor Restrictions | With Donor Restrictions | Total |
| **Revenue and Support** | | | | | | |
| Cash contributions | $ 1,204,240 | $ 3,745,101 | $ 4,949,341 | $ 1,779,845 | $ 4,824,648 | $ 6,604,493 |
| In-kind contributions | 531,402 | - | 531,402 | 496,086 | - | 496,086 |
| Federal grant revenue | 384,485 | - | 384,485 | 140,364 | - | 140,364 |
| ReStore revenue | 1,941,557 | - | 1,941,557 | 1,720,272 | - | 1,720,272 |
| Mortgage discount amortization | 721,804 | - | 721,804 | 737,083 | - | 737,083 |
| Transfers to homeowners | 2,038,500 | - | 2,038,500 | 1,208,250 | - | 1,208,250 |
| Miscellaneous income (Note 15) | 969,146 | - | 969,146 | 682,285 | - | 682,285 |
| Interest income | 3,584 | - | 3,584 | 3,328 | - | 3,328 |
| Total revenue and support | 7,794,718 | 3,745,101 | 11,539,819 | 6,767,513 | 4,824,648 | 11,592,161 |
| Net assets released from restrictions | 2,509,184 | (2,509,184) | - | 1,391,028 | (1,391,028) | - |
| Total revenue, support, and net assets released from restrictions | 10,303,902 | 1,235,917 | 11,539,819 | 8,158,541 | 3,433,620 | 11,592,161 |
| **Expenses** | | | | | | |
| Program services: | | | | | | |
| Construction and program services | 5,298,207 | - | 5,298,207 | 4,110,176 | - | 4,110,176 |
| ReStore | 1,878,256 | - | 1,878,256 | 1,828,914 | - | 1,828,914 |
| Discount on mortgage originations | 740,058 | - | 740,058 | 664,269 | - | 664,269 |
| Total program services | 7,916,521 | - | 7,916,521 | 6,603,359 | - | 6,603,359 |
| Support services: | | | | | | |
| Management and general | 847,021 | - | 847,021 | 779,310 | - | 779,310 |
| Fundraising | 830,797 | - | 830,797 | 759,336 | - | 759,336 |
| Total support services | 1,677,818 | - | 1,677,818 | 1,538,646 | - | 1,538,646 |
| Total expenses | 9,594,339 | - | 9,594,339 | 8,142,005 | - | 8,142,005 |
| **Increase in Net Assets** | 709,563 | 1,235,917 | 1,945,480 | 16,536 | 3,433,620 | 3,450,156 |
| **Net Assets** - Beginning of year | 13,104,416 | 3,686,091 | 16,790,507 | 13,087,880 | 252,471 | 13,340,351 |
| **Net Assets** - End of year | **$ 13,813,979** | **$ 4,922,008** | **$ 18,735,987** | **$ 13,104,416** | **$ 3,686,091** | **$ 16,790,507** |

See notes to financial statements.

# Statement of Functional Expenses

**Year Ended June 30, 2019**

| | Program Services | | | | Support Services | | | |
|---|---|---|---|---|---|---|---|---|
| | Construction and Program Services | ReStore | Discount on Mortgage Originations | Total | Management and General | Fundraising | Total | Total |
| Cost of homes transferred | $ 2,827,882 | $ - | $ - | $ 2,827,882 | $ - | $ - | $ - | $ 2,827,882 |
| Mortgage discounts | - | - | 740,058 | 740,058 | - | - | - | 740,058 |
| Salaries and benefits | 1,501,265 | 947,524 | - | 2,448,789 | 545,819 | 560,602 | 1,106,421 | 3,555,210 |
| Professional fees | 111,712 | 721 | - | 112,433 | 113,921 | 77,011 | 190,932 | 303,365 |
| Postage printing promotions | 96,551 | 34,723 | - | 131,274 | 978 | 25,004 | 25,982 | 157,256 |
| Occupancy | 212,133 | 197,617 | - | 409,750 | 7,276 | 8,456 | 15,732 | 425,482 |
| Depreciation | 89,979 | 61,400 | - | 151,379 | 16,151 | 18,770 | 34,921 | 186,300 |
| HFHI tithe | 90,000 | - | - | 90,000 | - | - | - | 90,000 |
| Deed restrictions | 35,060 | - | - | 35,060 | - | - | - | 35,060 |
| Uncollectible pledges | - | - | - | - | - | 14,100 | 14,100 | 14,100 |
| Insurance | 38,636 | 9,769 | - | 48,405 | 2,153 | 1,240 | 3,393 | 51,798 |
| Transportation and travel | 25,685 | 42,543 | - | 68,228 | 2,250 | 4,363 | 6,613 | 74,841 |
| Office supplies and equipment | 43,679 | 49,596 | - | 93,275 | 16,966 | 34,316 | 51,282 | 144,557 |
| Interest | 33,133 | 541 | - | 33,674 | 107,126 | - | 107,126 | 140,800 |
| Telephone | 21,655 | 21,878 | - | 43,533 | 5,039 | 5,668 | 10,707 | 54,240 |
| Volunteer and donor recognition | 18,242 | 45 | - | 18,287 | 209 | 53,862 | 54,071 | 72,358 |
| Construction supplies and tools | 37,243 | 4,259 | - | 41,502 | - | - | - | 41,502 |
| Bank charges | 32,163 | 38,896 | - | 71,059 | 5,908 | 3,969 | 9,877 | 80,936 |
| Cost of purchased inventory | - | 439,851 | - | 439,851 | - | - | - | 439,851 |
| Training and conferences | 26,043 | 12,677 | - | 38,720 | 10,036 | 11,482 | 21,518 | 60,238 |
| Dues and memberships | 11,782 | 12,553 | - | 24,335 | 3,977 | 4,213 | 8,190 | 32,525 |
| Employee relations | 6,231 | 4,894 | - | 11,125 | 3,440 | 2,865 | 6,305 | 17,430 |
| Other | 39,133 | (1,231) | - | 37,902 | 5,772 | 4,876 | 10,648 | 48,550 |
| Total functional expenses | **$ 5,298,207** | **$ 1,878,256** | **$ 740,058** | **$ 7,916,521** | **$ 847,021** | **$ 830,797** | **$ 1,677,818** | **$ 9,594,339** |

# Statement of Functional Expenses

**Year Ended June 30, 2018**

| | Program Services | | | | Support Services | | | |
|---|---|---|---|---|---|---|---|---|
| | Construction and Program Services | ReStore | Discount on Mortgage Originations | Total | Management and General | Fundraising | Total | Total |
| Cost of homes transferred | $ 2,137,800 | $ - | $ - | $ 2,137,800 | $ - | $ - | $ - | $ 2,137,800 |
| Mortgage discounts | - | - | 664,269 | 664,269 | - | - | - | 664,269 |
| Salaries and benefits | 1,064,296 | 995,829 | - | 2,060,125 | 491,234 | 515,054 | 1,006,288 | 3,066,413 |
| Professional fees | 22,432 | 1,467 | - | 23,899 | 103,317 | 67,275 | 170,592 | 194,491 |
| Postage printing promotions | 143,060 | 50,095 | - | 193,155 | 835 | 29,997 | 30,832 | 223,987 |
| Occupancy | 149,885 | 191,424 | - | 341,309 | 8,099 | 9,134 | 17,233 | 358,542 |
| Depreciation | 77,614 | 61,606 | - | 139,220 | 16,121 | 18,211 | 34,332 | 173,552 |
| HFHI tithe | 91,025 | - | - | 91,025 | - | - | - | 91,025 |
| Uncollectible pledges | - | - | - | - | - | 19,345 | 19,345 | 19,345 |
| Insurance | 34,138 | 8,916 | - | 43,054 | 2,161 | 1,370 | 3,531 | 46,585 |
| Transportation and travel | 50,995 | 36,695 | - | 87,690 | 3,445 | 7,095 | 10,540 | 98,230 |
| Office supplies and equipment | 37,886 | 34,895 | - | 72,781 | 18,305 | 37,699 | 56,004 | 128,785 |
| Interest | 53,685 | 305 | - | 53,990 | 104,351 | - | 104,351 | 158,341 |
| Telephone | 20,008 | 17,403 | - | 37,411 | 6,025 | 6,209 | 12,234 | 49,645 |
| Volunteer and donor recognition | 22,674 | 600 | - | 23,274 | 644 | 27,414 | 28,058 | 51,332 |
| Construction supplies and tools | 84,154 | 3,186 | - | 87,340 | - | - | - | 87,340 |
| Bank charges | 34,505 | 33,877 | - | 68,382 | 4,312 | 2,704 | 7,016 | 75,398 |
| Cost of purchased inventory | - | 367,803 | - | 367,803 | - | - | - | 367,803 |
| Training and conferences | 16,981 | 7,496 | - | 24,477 | 8,439 | 8,274 | 16,713 | 41,190 |
| Dues and memberships | 12,521 | 11,278 | - | 23,799 | 4,613 | 5,039 | 9,652 | 33,451 |
| Employee relations | 7,064 | 4,500 | - | 11,564 | 2,157 | 3,146 | 5,303 | 16,867 |
| Other | 49,453 | 1,539 | - | 50,992 | 5,252 | 1,370 | 6,622 | 57,614 |
| Total functional expenses | **$ 4,110,176** | **$ 1,828,914** | **$ 664,269** | **$ 6,603,359** | **$ 779,310** | **$ 759,336** | **$ 1,538,646** | **$ 8,142,005** |

See notes to financial statements.

# Statement of Cash Flows

**Years Ended June 30, 2019 and 2018**

| | 2019 | 2018 |
|---|---|---|
| **Cash Flows from Operating Activities** | | |
| Increase in net assets | $ 1,945,480 | $ 3,450,156 |
| Adjustments to reconcile increase (decrease) in net assets to net cash from operating activities: | | |
| Depreciation | 186,300 | 173,552 |
| Discount on noninterest-bearing mortgage notes | 740,058 | 664,269 |
| Mortgage discount amortization | (721,804) | (737,083) |
| Donated inventory | (198,137) | (331,026) |
| Donated land for home construction | (186,000) | (39,000) |
| Donated services for home construction | (147,263) | (126,060) |
| Foreclosures | - | 109,009 |
| Change in beneficial interest | (26,282) | (8,283) |
| Bad debt expense | 14,100 | 19,345 |
| Loss on sale of property and equipment | 4,098 | - |
| Unrealized gains on property held for sale or future home development | (32,301) | (34,268) |
| Amortization of debt issuance fees | 66,634 | 68,933 |
| Income on equity method investments | (11,611) | (178,634) |
| Net gain on settlement of joint venture | (274,769) | (327,178) |
| Changes in operating assets and liabilities that (used) provided cash: | | |
| Unconditional promises to give | (676,929) | (2,294,762) |
| Grants receivable | (188,795) | (10,280) |
| Inventory | 240,605 | 454,121 |
| Deferred revenue | (50,863) | (42,605) |
| Homes under construction | (2,005,790) | (2,215,071) |
| Other assets | (55,633) | (14,565) |
| Property held for sale or future home development | 1,282,823 | (233,165) |
| Accounts payable and accrued expenses | (61,985) | 229,501 |
| Net cash used in operating activities | (158,064) | (1,423,094) |
| **Cash Flows from Investing Activities** | | |
| Net change in restricted cash | 49,763 | (42,730) |
| Proceeds from restricted cash from formation of joint venture | - | 91,856 |
| Purchase of property and equipment | (46,120) | (175,005) |
| Collections on mortgages receivable | 1,352,608 | 1,259,211 |
| Net proceeds from formation of joint venture | - | 372,745 |
| Distributions from equity method investments | 32,793 | 65,285 |
| Net cash provided by investing activities | 1,389,044 | 1,571,362 |
| **Cash Flows from Financing Activities** | | |
| Payments on long-term debt | (1,072,317) | (4,645) |
| Proceeds from long-term debt | 270,872 | - |
| Proceeds from line of credit | 1,400,000 | 1,365,000 |
| Payments on line of credit | (1,400,000) | (1,565,000) |
| Net cash used in financing activities | (801,445) | (204,645) |
| **Net Increase (Decrease) in Cash and Cash Equivalents** | 429,535 | (56,377) |
| **Cash and Cash Equivalents** - Beginning of year | 196,318 | 252,695 |
| **Cash and Cash Equivalents** - End of year | **$ 625,853** | **$ 196,318** |

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, 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 three 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 $350,000 and $0 as of June 30, 2019 and 2018, 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.

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.

Conditional promises to give are recognized when the conditions upon which they depend are substantially met.

## Note 2 - Significant Accounting Policies (Continued)

***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.

***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.

***Noninterest-bearing Mortgage Notes Receivable***

Mortgage receivables consist of noninterest-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 7.47 to 9 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.

Management does not believe that an allowance is necessary for uncollectible balances due to the fact that the 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.

***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, 2019 and 2018 consist of $467,164 and $721,761, respectively, of fees paid in connection with the issuance of debt, discussed in Note 15. The amortization portion of the interest expense was $66,634 and $68,933 in 2019 and 2018, respectively. Accumulated amortization was $110,643 and $278,854 at June 30, 2019 and 2018, 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.

## Note 2 - Significant Accounting Policies (Continued)

Habitat reports gifts of property, plant, and equipment as without donor restrictions support unless explicit donor stipulations specify how the donated assets must be used. Gifts of property, plant, 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, plant, and equipment are reported as restricted support. Absent explicit donor stipulations about how long the property, plant, 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 2019 or 2018 (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 classified 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 restrictions are not subject to donor-imposed restrictions, or the donor-imposed restrictions have expired or been fulfilled. Net assets in this category may be expended for any purpose in performing the primary objectives of Habitat. Net assets with donor restrictions are subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of Habitat or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. In accordance with the Uniform Prudent Management of Institutional Funds Act (UPMIFA), investment earnings of endowment funds available for distribution are recorded in net assets with restrictions until appropriated for spending under Habitat’s spending policy.

***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. The resulting mortgages are noninterest bearing and have been discounted based upon prevailing market rates for low-income housing at the inception of the mortgages. Habitat recognizes the income from the sales to homeowners on the completed contract method.

***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 would be typically purchased if not provided by donation. Donated services and assets, excluding land, amounted to approximately $345,000 and $455,000 for the years ended June 30, 2019 and 2018, respectively. Donated land amounted to approximately $186,000 and $39,000 for the years ended June 30, 2019 and 2018, respectively.

## Note 2 - Significant Accounting Policies (Continued)

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 criterion outlined above was not met. The total number of persons who volunteered for the year ended June 30, 2019 was 4,344, totaling 55,443 of volunteer hours. The total number of persons who volunteered for the year ended June 30, 2018 was 4,737, totaling 60,900 of volunteer hours.

***Revenue and Cost Recognition***

ReStore revenue is recognized by Habitat upon purchase by customers.

***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 required allocation on a reasonable basis that is consistently applied. Indirect costs have been allocated between the various programs 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 19, 2019, which is the date the financial statements were available to be issued.

***Upcoming Accounting Changes***

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which will supersede the current revenue recognition requirements in Topic 605, *Revenue Recognition*. The ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The new guidance will be effective for Habitat’s year ending June 30, 2020. The ASU permits application of the new revenue recognition guidance using one of two retrospective application methods. Habitat has begun to analyze the new standard and has not yet determined the impact on the timing or amount of revenue. Habitat does expect expanded disclosures as a result of the adoption of this standard.

## Note 2 - Significant Accounting Policies (Continued)

In June 2018, the FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which provides enhanced guidance to assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal transactions) and (2) determining whether a contribution is conditional. The accounting guidance will result in more governmental contracts being accounted for as contributions and may delay revenue recognition for certain grants and contributions that no longer meet the definition of unconditional. The new guidance will be effective for Habitat's year ending June 30, 2020 and will be applied on a modified prospective basis. Habitat does not expect the standard to have a significant impact on the timing of revenue recognition for government grants and contracts, but has not yet determined the impact on the timing of recognition of foundation and individual grants and contributions.

***Adoption of New Accounting Pronouncement***

For the year ended June 30, 2019, the Organization adopted FASB ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. ASU No. 2016-14 requires changes to the financial reporting model of organizations that follow FASB not-for-profit rules, including net asset classification, liquidity and availability of resources, and details of expenses by natural and functional classification and methods of allocation. For the year ended June 30, 2018, previously reported temporarily restricted net assets of $3,608,886 and permanently restricted net assets of $77,205 have been combined and reported as net assets with donor restrictions of $3,686,091. The standard also clarifies the definition of management and general and prohibits certain expenses from being allocated out of management and general. As a result, for the year ended June 30, 2018, construction and program services was decreased and management and general was increased by $257,035. The standard was implemented retrospectively except for the liquidity footnote, as allowed by the standard.

## Note 3 - Unconditional Promises to Give and Other Receivables

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

| | 2019 | 2018 |
|---|---|---|
| Receivable - Home sponsorships and Bright Futures campaign | $ 4,292,591 | $ 3,561,836 |
| Receivable - Capital campaign | - | 20,000 |
| Allowance for present value and reserve | (112,426) | (64,500) |
| Net | $ 4,180,165 | $ 3,517,336 |

Of the $4,292,591 receivable balance as of June 30, 2019, $2,335,058 is due in 2020, $1,023,490 is due in 2021, $379,043 is due in 2022, $355,000 is due in 2023, and $200,000 is due in 2024.

## Note 4 - Noninterest-bearing Mortgage Notes

Habitat provides noninterest-bearing mortgage notes for individual homeowners with maturities at various dates through May 2048. Unamortized discounts are amortized using the effective interest rate method over the life of the mortgage at interest rates ranging from 7.47 to 9 percent. Noninterest-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, 2019 and 2018.

***Noninterest-bearing Mortgage Notes***

Noninterest-bearing mortgage notes outstanding as of June 30, 2019 and 2018 are as follows:

| | 2019 | 2018 |
|---|---|---|
| Mortgage notes | $ 13,326,110 | $ 13,303,998 |
| Unamortized discounts | (5,701,196) | (5,682,942) |
| Balance at year end | $ 7,624,914 | $ 7,621,056 |

***Financing Loan Receivables Aging***

The following table sets forth the aging of the customer financing loan receivables as of June 30, 2019:

| Delinquency Period | | | | | |
|---|---|---|---|---|---|
| 30-59 Days | 60-89 Days | Greater than 90 Days | Total Delinquent Mortgage Balances | Current | Total Balance at June 30, 2019 |
| $ 709,862 | $ 398,713 | $ 160,368 | $ 1,268,943 | $ 6,355,971 | $ 7,624,914 |

***Allowance for Loan Losses - Noninterest-bearing Mortgage Notes***

Management does not believe that an allowance is necessary for uncollectible balances due to the fact that the 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, 2019 and 2018 was $117,004 and $90,722, respectively, of which $77,205 is included in net assets with restrictions on the balance sheet and is to be held in perpetuity. During the year ended June 30, 2019, a contribution of $20,932 was made to this fund by Habitat using dollars without donor restrictions. The remainder represents accumulated earnings that are not restricted.

## Note 5 - Beneficial Interest in Funds Held at a Community Foundation (Continued)

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 $6,129 and $5,999 at June 30, 2019 and 2018, respectively.

## Note 6 - Property and Equipment

Property and equipment are summarized as follows:

| | 2019 | 2018 | Depreciable Life - Years |
|---|---|---|---|
| Land | $ 100,433 | $ 100,433 | - |
| Buildings | 2,407,764 | 2,404,645 | 10-40 |
| Furniture and fixtures | 472,128 | 492,415 | 3-10 |
| Transportation equipment | 329,689 | 326,958 | 3 |
| Warehouse improvements | 293,967 | 293,967 | 3-5 |
| Warehouse equipment | 171,048 | 153,630 | 3-10 |
| Total cost | 3,775,029 | 3,772,048 | |
| Accumulated depreciation | 1,677,071 | 1,529,812 | |
| Net property and equipment | $ 2,097,958 | $ 2,242,236 | |

Depreciation expense was $186,300 for 2019 and $173,552 for 2018.

## 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, 2019 and 2018. 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, 2019 and 5.00 percent at June 30, 2018) and expires on December 5, 2019. 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 5.36 percent at June 30, 2019 and 4.94 percent at June 30, 2018) and expired on August 11, 2019, but was subsequently renewed through August 11, 2020. Habitat had $0 of outstanding borrowings as of June 30, 2019 and 2018.

## Note 8 - Debt

The following is a summary of debt at June 30:

| | 2019 | 2018 |
|---|---|---|
| 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 May 2028. Debt requires interest-only payments beginning in November 2012 until November 2020 at a rate of 0.77 percent. Semiannual principal reductions begin in May 2020 for a period of eight years. The note was paid off in full in May 2019. See Note 15 for additional information | $ - | $ 1,880,000 |
| 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 |
| Draw loan payable with total available borrowings of $1,070,000 to Grand Rapids Community Foundation, secured by real estate mortgages for the property, payable in quarterly installments, including interest at 3.50 percent, due in April 2019. The note was paid off in full in March 2019 | - | 1,070,000 |
| Capital lease obligations with a financial institution payable in monthly installments ranging from $225 to $286. One obligation was paid in full during 2018. Remaining obligation is due in August 2022, including interest at 3.95 percent | 8,420 | 10,737 |
| Draw loan payable with total available borrowings of $500,000 to Steelcase Foundation, secured by real estate mortgages for the property, payable in full on or before December 31, 2025, including all accrued interest. Interest rate is 1.00 percent and is payable semiannually | 270,872 | - |
| Total | 4,229,858 | 6,911,303 |
| Less debt issuance fees, net | 356,521 | 442,907 |
| Long-term portion | $ 3,873,337 | $ 6,468,396 |

## Note 8 - Debt (Continued)

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:

| | | |
|---|---|---|
| 2020 | $ | 2,410 |
| 2021 | | 2,508 |
| 2022 | | 2,609 |
| 2023 | | 893 |
| 2024 | | 50,586 |
| Thereafter | | 4,170,852 |
| Total | $ | 4,229,858 |

## 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 $4,844,803 and $3,608,886 at June 30, 2019 and 2018, respectively. In addition, net assets with donor restrictions includes $77,205 of funds held at a community foundation. See Note 5 for additional details.

## Note 10 - Operating Leases

Habitat entered into an operating lease on March 7, 2018 for a building, expiring in March 2023. The lease requires Habitat to pay taxes, insurance, utilities, and maintenance costs. Total rent expense under the lease was $100,200 and $33,400 for 2019 and 2018, respectively. Habitat has an option to terminate the lease at the end of year one or two.

Future minimum annual commitments under the operating lease are as follows:

| Years Ending June 30 | | Amount |
|---|---|---|
| 2020 | $ | 50,000 |
| 2021 | | 90,000 |
| 2022 | | 90,000 |
| 2023 | | 60,000 |
| 2024 | | - |
| Total | $ | 290,000 |

## Note 11 - Cash Flows

Cash paid for interest was $76,582 and $90,388 for the years ended June 30, 2019 and 2018, respectively.

## Note 11 - Cash Flows (Continued)

Significant noncash activity for the years ended June 30, 2019 and 2018 is as follows:

| | 2019 | 2018 |
|---|---|---|
| Establishment of noninterest-bearing mortgage notes receivable | $ 1,374,720 | $ 1,157,842 |
| Settlement of the CCML Leverage I, LLC joint venture debt obligation | 1,880,000 | - |
| Dissolution of investment of CCML Leverage I, LLC joint venture | 1,585,479 | - |
| Settlement of the HFHI-SA Leverage VII, LLC joint venture debt obligation | - | 1,573,392 |
| Dissolution of investment of HFHI-SA Leverage VII, LLC joint venture | - | 1,233,887 |
| Debt obligation for the formation of HFHI NMTC SUB-CDE III, LLC joint venture | - | 1,825,938 |
| Investment for the formation of HFHI NMTC SUB-CDE III, LLC | - | 1,055,843 |
| Debt issuance fees for the formation of HFHI NMTC SUB-CDE III, LLC joint venture | - | 213,193 |
| Equipment acquired under capital lease | - | 12,232 |

## 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 and $91,025 for the years ended June 30, 2019 and 2018, respectively. 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, 2019 and 2018 were $130,853 and $117,054, 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 whereby 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.

## Note 14 - Fair Value (Continued)

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 consists substantially 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 2011, Habitat for Humanity of Kent County, Inc. participated in an NMTC program. Program compliance requirements included creation of a promissory note and investment in a qualified community development entity (CDE). Habitat invested, along with five other Habitat affiliates, in a joint venture (HFHI-SA Leverage VII, LLC) with 7.168 percent ownership, which loaned the funds to HFHI-SA Investment Fund IV, LLC, an affiliate of HFHI-SA NMTC IV, 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 Credits to be applied against their federal tax liability. At the end of the compliance period, the joint venture dissolved during February 2018, resulting in the $1,573,392 loan being settled and the related investment in joint venture of $1,233,887 being written off. As a result, Habitat recognized a $327,178 net gain upon settlement of the option, which is included in miscellaneous income for the year ended June 30, 2018.

In 2012, 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 nine other Habitat affiliates, in a joint venture (CCML Leverage I, LLC) with 10.0055 percent ownership, which loaned the funds to CCM CD XVII Investment Fund, LLC, an affiliate of CCM Community Development XVII, 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 Credits to be applied against their federal tax liability. At the end of the compliance period, the joint venture dissolved during May 2019, resulting in the $1,880,000 loan being settled and the related investment in joint venture of $1,585,479 being written off. As a result, Habitat recognized a $274,769 net gain upon settlement of the option, which is included in miscellaneous income for the year ended June 30, 2019.

In 2015, 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 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 Credits to be applied against their federal tax liability. As a result, Habitat has invested $1,466,759 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.

## Note 15 - Investment in Joint Ventures (Continued)

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 Credits to be applied against their federal tax liability. As a result, Habitat has invested $1,234,494 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 extinguish the debt with the settlement of each participant's related investment. 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 $114,605 and $165,468 for the unearned fees during the years ended June 30, 2019 and 2018, respectively.

## Note 16 - Liquidity and Availability of Resources

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

| | |
|---|---|
| Cash and cash equivalents | $ 625,853 |
| Unconditional promises to give and other receivables | 2,335,058 |
| Grants receivable | 359,047 |
| Noninterest-bearing mortgage notes receivable | 981,812 |
| Endowment spendable allocation | 10,350 |
| Financial assets available to meet cash needs for general expenditures within one year | $ 4,312,120 |

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, which it could draw upon. As described in Note 8, Habitat has access to an additional $229,128 of borrowings on its draw loan payable with Steelcase Foundation.