Habitat for Humanity of Kent County, Inc.

Financial Report

June 30, 2020

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, 2020 and 2019 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, 2020 and 2019 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 Matters

As described in Note 2 to the financial statements, Habitat has been impacted by the coronavirus pandemic. Our opinion is not modified with respect to this matter.

As described in Note 2 to the financial statements, Habitat adopted the provisions of Accounting Standards Update (ASU) No. 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*, for the year ended June 30, 2020, applied retrospectively to all years presented. Our opinion is not modified with respect to this matter.

Plante & Moran, PLLC

September 17, 2020

Balance Sheet

June 30, 2020 and 2019

	2020	2019
Assets		
Cash and cash equivalents	$ 1,954,505	$ 625,853
Unconditional promises to give and other receivables - Net (Note 3)	2,321,883	4,180,165
Inventory	669,119	715,167
Homes under construction - Net	2,940,844	3,101,207
Grants receivable	39,174	359,047
Restricted cash	91,274	116,355
Investments in joint ventures (Note 15)	2,706,759	2,701,253
Other assets	84,663	100,561
Non-interest-bearing mortgage notes receivable (Note 4)	7,545,325	7,624,914
Property held for sale or future home development - Net	1,257,609	1,530,968
Beneficial interest in funds held at a community foundation (Note 5)	111,925	117,004
Property and equipment - Net (Note 6)	1,941,778	2,097,958
Total assets	**$ 21,664,858**	**$ 23,270,452**
Liabilities and Net Assets		
Liabilities		
Accounts payable	$ 109,704	$ 261,943
Deferred revenue (Note 15)	86,259	114,605
Accrued expenses	268,535	284,580
Debt - Net (Note 8)	4,685,970	3,873,337
Total liabilities	5,150,468	4,534,465
Net Assets		
Without donor restrictions	13,556,343	13,813,979
With donor restrictions (Notes 5 and 9)	2,958,047	4,922,008
Total net assets	16,514,390	18,735,987
Total liabilities and net assets	**$ 21,664,858**	**$ 23,270,452**

Habitat for Humanity of Kent County, Inc.

Statement of Activities and Changes in Net Assets

Years Ended June 30, 2020 and 2019

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support						
Cash contributions	$ 625,740	$ 525,404	$ 1,151,144	$ 1,204,240	$ 3,745,101	$ 4,949,341
In-kind contributions	293,015	-	293,015	531,402	-	531,402
Federal grant revenue	290,177	-	290,177	384,485	-	384,485
ReStore revenue	1,155,063	-	1,155,063	1,941,557	-	1,941,557
Mortgage discount amortization	836,229	-	836,229	721,804	-	721,804
Transfers to homeowners	1,667,000	-	1,667,000	2,038,500	-	2,038,500
Miscellaneous income (Note 15)	438,804	-	438,804	969,146	-	969,146
Interest income	5,926	-	5,926	3,584	-	3,584
Total revenue and support	5,311,954	525,404	5,837,358	7,794,718	3,745,101	11,539,819
Net Assets Released from Restrictions	2,489,365	(2,489,365)	-	2,509,184	(2,509,184)	-
Total revenue, support, and net assets released from restrictions	7,801,319	(1,963,961)	5,837,358	10,303,902	1,235,917	11,539,819
Expenses						
Program services:						
Construction and program services	4,483,939	-	4,483,939	5,298,207	-	5,298,207
ReStore	1,319,197	-	1,319,197	1,878,256	-	1,878,256
Discount on mortgage originations	724,714	-	724,714	740,058	-	740,058
Total program services	6,527,850	-	6,527,850	7,916,521	-	7,916,521
Support services:						
Management and general	816,861	-	816,861	847,021	-	847,021
Fundraising	714,244	-	714,244	830,797	-	830,797
Total support services	1,531,105	-	1,531,105	1,677,818	-	1,677,818
Total expenses	8,058,955	-	8,058,955	9,594,339	-	9,594,339
(Decrease) Increase in Net Assets	(257,636)	(1,963,961)	(2,221,597)	709,563	1,235,917	1,945,480
Net Assets - Beginning of year	13,813,979	4,922,008	18,735,987	13,104,416	3,686,091	16,790,507
Net Assets - End of year	**$ 13,556,343**	**$ 2,958,047**	**$ 16,514,390**	**$ 13,813,979**	**$ 4,922,008**	**$ 18,735,987**

See notes to financial statements.

Statement of Functional Expenses

Year Ended June 30, 2020

	Program Services				Support Services			
	Construction and Program Services	ReStore	Discount on Mortgage Originations	Total	Management and General	Fundraising	Total	Total
Cost of homes transferred	$ 2,381,344	$ -	$ -	$ 2,381,344	$ -	$ -	$ -	$ 2,381,344
Mortgage discounts	-	-	724,714	724,714	-	-	-	724,714
Salaries and benefits	1,261,837	777,705	-	2,039,542	572,242	554,996	1,127,238	3,166,780
Professional fees	146,933	1,060	-	147,993	111,760	45,326	157,086	305,079
Postage printing promotions	32,568	10,614	-	43,182	635	23,475	24,110	67,292
Occupancy	162,381	147,804	-	310,185	6,905	7,939	14,844	325,029
Depreciation	89,929	54,604	-	144,533	15,859	18,431	34,290	178,823
HFHI tithe	90,000	-	-	90,000	-	-	-	90,000
Deed restrictions	92,500	-	-	92,500	-	-	-	92,500
Uncollectible pledges	-	-	-	-	-	630	630	630
Insurance	44,738	11,124	-	55,862	2,605	1,033	3,638	59,500
Transportation and travel	15,555	28,447	-	44,002	1,745	1,048	2,793	46,795
Office supplies and equipment	40,340	32,490	-	72,830	16,493	40,072	56,565	129,395
Interest	2,709	289	-	2,998	63,949	-	63,949	66,947
Telephone	15,848	12,284	-	28,132	3,923	4,624	8,547	36,679
Volunteer and donor recognition	6,132	129	-	6,261	1,324	2,301	3,625	9,886
Construction supplies and tools	25,488	1,362	-	26,850	-	-	-	26,850
Bank charges	29,182	32,098	-	61,280	5,849	2,955	8,804	70,084
Cost of purchased inventory	-	189,503	-	189,503	-	-	-	189,503
Training and conferences	15,083	5,796	-	20,879	3,402	5,745	9,147	30,026
Dues and memberships	11,183	10,065	-	21,248	4,118	3,256	7,374	28,622
Employee relations	6,194	4,138	-	10,332	1,552	2,294	3,846	14,178
Other	13,995	(315)	-	13,680	4,500	119	4,619	18,299
Total functional expenses	**$ 4,483,939**	**$ 1,319,197**	**$ 724,714**	**$ 6,527,850**	**$ 816,861**	**$ 714,244**	**$ 1,531,105**	**$ 8,058,955**

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**

See notes to financial statements.

Statement of Cash Flows

Years Ended June 30, 2020 and 2019

	2020	2019
Cash Flows from Operating Activities		
(Decrease) increase in net assets	$ (2,221,597)	$ 1,945,480
Adjustments to reconcile (decrease) increase in net assets to net cash and cash equivalents from operating activities:		
Depreciation	178,823	186,300
Discount on non-interest-bearing mortgage notes	724,714	740,058
Mortgage discount amortization	(774,229)	(721,804)
Donated inventory	(219,706)	(198,137)
Donated land for home construction	-	(186,000)
Donated services for home construction	(73,308)	(147,263)
Foreclosures	(161,801)	-
Change in beneficial interest	5,079	(26,282)
Bad debt expense	630	14,100
Loss on sale of property and equipment	2,824	4,098
Unrealized losses (gains) on property held for sale or future home development	65,557	(32,301)
Amortization of debt issuance fees	36,906	66,634
Income on equity method investments	(27,040)	(11,611)
Net gain on settlement of joint venture	-	(274,769)
Changes in operating assets and liabilities that provided (used) cash and cash equivalents:		
Unconditional promises to give	1,857,652	(676,929)
Grants receivable	319,873	(188,795)
Inventory	265,754	240,605
Deferred revenue	(28,346)	(50,863)
Homes under construction	(1,040,783)	(2,005,790)
Other assets	15,898	(55,633)
Property held for sale or future home development	207,802	1,282,823
Accounts payable and accrued expenses	(168,284)	(61,985)
Net cash and cash equivalents used in operating activities	(1,033,582)	(158,064)
Cash Flows from Investing Activities		
Purchase of property and equipment	(25,467)	(46,120)
Collections on mortgages receivable	1,565,359	1,352,608
Distributions from equity method investments	27,040	32,793
Net cash and cash equivalents provided by investing activities	1,566,932	1,339,281
Cash Flows from Financing Activities		
Payments on long-term debt	(2,411)	(1,072,317)
Proceeds from long-term debt	772,632	270,872
Proceeds from line of credit	400,000	1,400,000
Payments on line of credit	(400,000)	(1,400,000)
Net cash and cash equivalents provided by (used in) financing activities	770,221	(801,445)
Net Increase in Cash and Cash Equivalents	1,303,571	379,772
Cash and Cash Equivalents - Beginning of year	742,208	362,436
Cash and Cash Equivalents - End of year	**$ 2,045,779**	**$ 742,208**

See notes to financial statements.

Statement of Cash Flows (Continued)

Years Ended June 30, 2020 and 2019

	2020	2019
Classification of Cash and Cash Equivalents		
Cash and cash equivalents	$ 1,954,505	$ 625,853
Restricted cash	91,274	116,355
Total cash and cash equivalents	**$ 2,045,779**	**$ 742,208**

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. During the year ended June 30, 2020, one of the three ReStore stores was closed. 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 $1,672,000 and $350,000 as of June 30, 2020 and 2019, 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)

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 7.38 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, 2020 and 2019 consist of $461,658 and $467,164, respectively, of fees paid in connection with the issuance of debt, discussed in Note 15. The amortization portion of the interest expense was $36,906 and $66,634 in 2020 and 2019, respectively. Accumulated amortization was $147,549 and $110,643 at June 30, 2020 and 2019, 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, 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.

Note 2 - Significant Accounting Policies (Continued)

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 2020 or 2019 (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.

In addition, Habitat receives conditional promises to give that are not recognized as assets in the balance sheet. As of June 30, 2020, conditional promises to give total approximately $902,000 and will be recorded as revenue as the barriers within the grant agreements are overcome. The barriers are mainly to spend dollars on eligible expenses. Habitat records cash received in advance of meeting conditions as other accrued liabilities on the balance sheet.

Transfers to Homeowners

Transfers to homeowners represent the sale of houses by Habitat. 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 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 typically would be purchased if not provided by donation. Donated services and assets, excluding land, amounted to approximately $293,000 and $345,000 for the years ended June 30, 2020 and 2019, respectively. Donated land amounted to approximately $0 and $186,000 for the years ended June 30, 2020 and 2019, 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 criterion outlined above was not met. The total number of persons who volunteered for the year ended June 30, 2020 was 2,739, totaling 36,260 volunteer hours. The total number of persons who volunteered for the year ended June 30, 2019 was 4,344, totaling 55,443 volunteer hours.

Note 2 - Significant Accounting Policies (Continued)

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).

COVID-19

On March 11, 2020, the World Health Organization declared the outbreak of a respiratory disease caused by a new coronavirus a pandemic. First identified in late 2019 and now known as COVID-19, the outbreak has impacted millions of individuals worldwide. In response, many countries have implemented measures to combat the outbreak that have impacted global business operations.

On March 23, 2020, a shelter-in-place order became effective in Michigan. Habitat's operations were impacted, closing its construction sites, stores, and offices and working remotely where possible. To mitigate the impact, Habitat received a Paycheck Protection Program, as loan described in Note 8. Habitat’s construction sites and stores have been reopened prior to June 30, 2020, and its offices continue to utilize a remote work environment. Habitat continues to monitor the situation, but no impairments were recorded as of the balance sheet date. The long-term financial impact on Habitat's operations continues to be assessed.

Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including September 17, 2020, 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, 2021. 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 February 2016, the Financial Accounting Standards Board issued ASU No. 2016-02, *Leases*, which will supersede the current lease requirements in ASC 840. The ASU requires lessees to recognize a right-of-use asset and related lease liability for all leases, with a limited exception for short-term leases. Leases will be classified as either finance or operating, with the classification affecting the pattern of expense recognition in the statement of operations. Currently, leases are classified as either capital or operating, with only capital leases recognized on the balance sheet. The reporting of lease-related expenses in the statements of operations and cash flows will be generally consistent with the current guidance. The new lease guidance will be effective for the Habitat's year ending June 30, 2023 and will be applied using a modified retrospective transition method to the beginning of the earliest period presented. The new lease standard is not expected to have a significant effect on Habitat's financial statements as a result of the leases classified as operating leases, as disclosed in Note 10, that will be reported on the balance sheet at adoption. Upon adoption, Habitat will recognize a lease liability and corresponding right-of-use asset based on the present value of the minimum lease payments. The effects on the results of operations are not expected to be significant, as recognition and measurement of expenses and cash flows for leases will be substantially the same under the new standard.

Adoption of New Accounting Pronouncement

As of July 1, 2019, Habitat adopted Financial Accounting Standards Board Accounting Standards Update 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. Habitat adopted the new standard on a modified prospective basis, and it impacted the recognition of certain contribution and grant agreements. The standard did not require a restatement of prior year amounts.

Note 3 - Unconditional Promises to Give and Other Receivables

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

	2020	2019
Receivable - Home sponsorships and Bright Futures campaign	$ 2,375,570	$ 4,292,591
Allowance for present value and reserve	(53,687)	(112,426)
Net	$ 2,321,883	$ 4,180,165

Of the $2,375,570 receivable balance as of June 30, 2020, $1,417,360 is due in 2021, $403,210 is due in 2022, $355,000 is due in 2023, and $200,000 is due in 2024.

Note 4 - Non-interest-bearing Mortgage Notes

Habitat provides non-interest-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 7.38 to 9 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, 2020 and 2019.

Non-interest-bearing Mortgage Notes

Noninterest-bearing mortgage notes outstanding as of June 30, 2020 and 2019 are as follows:

	2020	2019
Mortgage notes	$ 13,197,006	$ 13,326,110
Unamortized discounts	(5,651,681)	(5,701,196)
Balance at year end	$ 7,545,325	$ 7,624,914

Financing Loan Receivables Aging

The following table sets forth the aging of the customer financing loan receivables as of June 30, 2020:

Delinquency Period					
30-59 Days	60-89 Days	Greater Than 90 Days	Total Delinquent Mortgage Balances	Current	Total Balance at June 30, 2020
$ 273,275	$ 224,642	$ 246,382	$ 744,299	$ 6,801,026	$ 7,545,325

Allowance for Loan Losses - Non-interest-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, 2020 and 2019 was $111,925 and $117,004, respectively, of which $80,425 and $77,205, respectively, is included in net assets with donor 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.

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 $5,863 and $6,129 at June 30, 2020 and 2019, respectively.

Note 6 - Property and Equipment

Property and equipment are summarized as follows:

	2020	2019	Depreciable Life - Years
Land	$ 100,433	$ 100,433	-
Buildings	2,411,580	2,407,764	10-40
Furniture and fixtures	472,109	472,128	3-10
Transportation equipment	329,689	329,689	3
Warehouse improvements	293,967	293,967	3-5
Warehouse equipment	186,025	171,048	3-10
Total cost	3,793,803	3,775,029	
Accumulated depreciation	1,852,025	1,677,071	
Net property and equipment	$ 1,941,778	$ 2,097,958	

Depreciation expense was $178,823 for 2020 and $186,300 for 2019.

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, 2020 and 2019. The first $500,000 line of credit to a bank, due on demand, bears interest at the prime rate (the prime rate was 3.25 percent at June 30, 2020 and 5.50 percent at June 30, 2019) and expires on December 5, 2020. 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 3.16 percent at June 30, 2020 and 5.36 percent at June 30, 2019) and expired on August 11, 2020 but was subsequently renewed through August 11, 2021. Habitat had $0 of outstanding borrowings as of June 30, 2020 and 2019.

Note 8 - Debt

The following is a summary of debt at June 30:

	2020	2019
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
Capital lease 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	6,009	8,420

Note 8 - Debt (Continued)

	2020	2019
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	$ 270,872
Note payable to a bank through the Paycheck Protection Program (PPP loan). This loan was obtained based on the Coronavirus Aid, Relief, and Economic Security (CARES) 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 six-month deferral period that expires in October 2020 during which no principal or interest payments are 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 April 2022	772,632	-
Total	5,000,079	4,229,858
Less debt issuance fees, net	314,109	356,521
Long-term portion	$ 4,685,970	$ 3,873,337

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:

2021	$ 344,470
2022	433,278
2023	893
2024	50,586
2025	101,173
Thereafter	4,069,679
Total	$ 5,000,079

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 $2,877,622 and $4,844,803 at June 30, 2020 and 2019, respectively. In addition, net assets with donor restrictions include $80,425 and $77,205, respectively, 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 $86,591 and $100,200 for 2020 and 2019, respectively. Habitat had an option to terminate the lease at the end of year one or two, which Habitat determined to exercise in March 2020.

Habitat entered into an operating lease on January 1, 2020 for a storage-only facility, expiring on December 31, 2020. The lease requires Habitat to pay taxes, insurance, utilities, and maintenance costs. Total rent expense under the lease was $4,912 for 2020. Future minimum annual commitments under the operating lease for June 30, 2021 total $5,400.

Note 11 - Cash Flows

Cash paid for interest was $30,042 and $76,582 for the years ended June 30, 2020 and 2019, respectively.

Significant noncash activity for the years ended June 30, 2020 and 2019 is as follows:

	2020	2019
Establishment of non-interest-bearing mortgage notes receivable	$ 1,274,454	$ 1,374,720
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

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, 2020 and 2019. 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, 2020 and 2019 were $113,042 and $130,853, 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.

Note 14 - Fair Value (Continued)

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 2012, 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 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 Credit to be applied against its 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 Credit to be applied against its 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.

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 $1,240,000 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.

Note 15 - Investment in Joint Ventures (Continued)

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 $86,259 and $114,605 for the unearned fees during the years ended June 30, 2020 and 2019, 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:

	2020	2019
Cash and cash equivalents	$ 1,954,505	$ 625,853
Unconditional promises to give and other receivables	1,417,360	2,335,058
Grants receivable	39,174	359,047
Non-interest-bearing mortgage notes receivable	983,036	981,812
Endowment spendable allocation	15,175	10,350
Financial assets available to meet cash needs for general expenditures within one year	$ 4,409,250	$ 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 for June 30, 2020 and 2019, 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 as of June 30, 2020 and 2019.