
Habitat for Humanity of Metro Denver, Inc.

Consolidated Financial Report
June 30, 2022

Independent Auditor's Report	1-2
Consolidated Financial Statements	
Statement of Financial Position	3
Statement of Activities and Changes in Net Assets	4
Statement of Functional Expenses	5-6
Statement of Cash Flows	7
Notes to Consolidated Financial Statements	8-28

Independent Auditor's Report

To the Board of Directors
Habitat for Humanity of Metro Denver, Inc.

Opinion

We have audited the accompanying consolidated financial statements of Habitat for Humanity of Metro Denver, Inc. (the "Organization"), which comprise the consolidated statement of financial position as of June 30, 2022 and 2021 and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Habitat for Humanity of Metro Denver, Inc. as of June 30, 2022 and 2021 and the changes in its net assets, functional expenses, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Emphasis of Matter

As described in Note 2 to the consolidated financial statements, as of July 1, 2021, the Organization adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Consolidated Financial Statements

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

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

Auditor's Responsibilities for the Audits of the Consolidated Financial Statements

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

To the Board of Directors
Habitat for Humanity of Metro Denver, Inc.

In performing audits in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audits.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audits in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

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

Plante & Moran, PLLC

September 26, 2022

Habitat for Humanity of Metro Denver, Inc.

Consolidated Statement of Financial Position

June 30, 2022 and 2021

	2022	2021
Assets		
Cash and cash equivalents	\$ 21,236,809	\$ 6,432,149
Investments held by The Denver Foundation	9,044,751	5,814,947
Mortgage notes receivable - Net	18,302,639	20,003,614
Real estate under development	12,284,835	10,376,964
Land held in trust	6,110,655	5,533,127
Investment in HFHI NMTC Leveraged Lender 2016-1, LLC	2,918,407	2,918,407
Other receivables and assets	3,713,831	1,529,925
Grants receivable	84,577	241,077
Escrow deposits held in trust	61,700	323,621
Property and equipment - Net	3,114,771	4,121,813
	<u>\$ 76,872,975</u>	<u>\$ 57,295,644</u>
Total assets		
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 926,560	\$ 505,272
Accrued expenses	1,460,232	650,984
Deferred rent	170,903	38,726
Homeowner deposits	30,564	34,621
Escrow deposits held in trust	61,700	323,621
Notes payable	5,899,384	6,271,755
Forgivable notes payable	2,650,800	2,650,800
Notes payable HFHI	243,022	283,611
Note payable HFHI NMTC SUB-CDE II, LLC	4,241,462	4,202,106
	<u>15,684,627</u>	<u>14,961,496</u>
Total liabilities		
Net Assets		
Without donor restrictions:		
Undesignated	49,154,024	32,628,089
Undesignated - Land held in trust	6,110,655	5,533,127
Board-designated for land and infrastructure	2,000,000	2,000,000
	<u>57,264,679</u>	<u>40,161,216</u>
Total net assets without donor restrictions		
With donor restrictions	3,923,669	2,172,932
	<u>61,188,348</u>	<u>42,334,148</u>
Total net assets		
Total liabilities and net assets	<u>\$ 76,872,975</u>	<u>\$ 57,295,644</u>

Habitat for Humanity of Metro Denver, Inc.

Consolidated Statement of Activities and Changes in Net Assets

Years Ended June 30, 2022 and 2021

	2022			2021		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, Gains, and Other Support						
Contributions and grants	\$ 18,469,608	\$ 2,701,714	\$ 21,171,322	\$ 3,527,472	\$ 2,168,736	\$ 5,696,208
Home sales	8,327,983	-	8,327,983	8,733,017	-	8,733,017
Gain on sale of assets	4,870,658	-	4,870,658	1,000	-	1,000
Donated goods, services, and property	1,820,926	-	1,820,926	721,492	-	721,492
Fee for construction services revenue	1,334,497	-	1,334,497	646,210	-	646,210
Mortgage interest income	515,371	-	515,371	373,776	-	373,776
Ground lease income	231,737	-	231,737	207,645	-	207,645
Rental income	215,284	-	215,284	214,194	-	214,194
Excess of assets acquired over liabilities assumed in contribution of Colorado Community Land Trust-Denver, LLC	-	-	-	5,455,086	-	5,455,086
Forgiveness of debt	-	-	-	1,705,600	-	1,705,600
Other income	555,686	-	555,686	723,268	-	723,268
Sales from ReStores - Net:						
Sales from ReStores - Donated goods	3,781,111	-	3,781,111	4,224,804	-	4,224,804
Sales from ReStores - Purchased and other goods	2,102,135	-	2,102,135	2,068,176	-	2,068,176
Cost of purchased inventory and refunds	(1,079,423)	-	(1,079,423)	(1,008,351)	-	(1,008,351)
Total sales from ReStores - Net	4,803,823	-	4,803,823	5,284,629	-	5,284,629
Net assets released from restrictions	950,977	(950,977)	-	3,207,538	(3,207,538)	-
Total revenue, gains, and other support	42,096,550	1,750,737	43,847,287	30,800,927	(1,038,802)	29,762,125
Expenses						
Program services:						
Home construction	15,030,051	-	15,030,051	12,831,695	-	12,831,695
Family and mortgage services	1,825,443	-	1,825,443	1,729,933	-	1,729,933
ReStores	4,205,558	-	4,205,558	3,812,018	-	3,812,018
Total program services	21,061,052	-	21,061,052	18,373,646	-	18,373,646
Support services:						
Management and general	1,821,598	-	1,821,598	1,271,349	-	1,271,349
Fundraising activities	1,369,575	-	1,369,575	1,245,298	-	1,245,298
Total support services	3,191,173	-	3,191,173	2,516,647	-	2,516,647
Total expenses	24,252,225	-	24,252,225	20,890,293	-	20,890,293
Change in Net Assets - Before other (expense) income	17,844,325	1,750,737	19,595,062	9,910,634	(1,038,802)	8,871,832
Other (Expense) Income - Investment return - Net	(740,862)	-	(740,862)	949,959	-	949,959
Change in Net Assets	17,103,463	1,750,737	18,854,200	10,860,593	(1,038,802)	9,821,791
Net Assets - Beginning of year	40,161,216	2,172,932	42,334,148	29,300,623	3,211,734	32,512,357
Net Assets - End of year	\$ 57,264,679	\$ 3,923,669	\$ 61,188,348	\$ 40,161,216	\$ 2,172,932	\$ 42,334,148

See notes to consolidated financial statements.

Habitat for Humanity of Metro Denver, Inc.

Consolidated Statement of Functional Expenses

Year Ended June 30, 2022

	Program Services				Support Services			Total
	Home Construction	Family and Mortgage Services	ReStores	Total Program Services	Management and General	Fundraising Activities	Total Support Services	
Cost of homes sold	\$ 9,569,586	\$ -	\$ -	\$ 9,569,586	\$ -	\$ -	\$ -	\$ 9,569,586
Salaries and wages	1,815,949	1,094,572	1,913,457	4,823,978	689,049	769,269	1,458,318	6,282,296
Volunteer labor on homes	533,262	-	-	533,262	-	-	-	533,262
Construction services	534,394	-	-	534,394	-	-	-	534,394
Occupancy	309,697	51,373	657,104	1,018,174	54,954	16,425	71,379	1,089,553
Payroll taxes and benefits	393,514	209,516	410,686	1,013,716	178,901	169,523	348,424	1,362,140
Habitat for Humanity International tithe	1,007,000	-	-	1,007,000	-	-	-	1,007,000
Depreciation and amortization	140,273	878	128,157	269,308	28,709	1,061	29,770	299,078
Professional fees	22,331	100,593	12,594	135,518	282,828	25,323	308,151	443,669
Bank fees	-	5,716	137,221	142,937	5,932	1,149	7,081	150,018
Insurance	74,915	47,903	131,056	253,874	40,326	32,749	73,075	326,949
Other construction costs	93,924	147,830	214,191	455,945	145	1,884	2,029	457,974
Marketing and communications	-	4,312	185,533	189,845	460	244,113	244,573	434,418
Office supplies	133,420	57,914	154,848	346,182	142,600	44,854	187,454	533,636
Vehicle costs	71,352	430	141,330	213,112	12,333	694	13,027	226,139
Interest	3,834	7,943	-	11,777	70,591	1,663	72,254	84,031
Volunteer costs	122,958	3,964	5,248	132,170	481	13,393	13,874	146,044
Telephone	40,249	27,091	59,382	126,722	37,465	17,257	54,722	181,444
Printing and postage	14,789	18,168	18,558	51,515	8,183	7,244	15,427	66,942
Miscellaneous	75,269	13,361	3,415	92,045	106,104	-	106,104	198,149
Donated goods and services	9,113	336	-	9,449	49,335	888	50,223	59,672
Administrative fees	377	18,238	148	18,763	61,730	-	61,730	80,493
Equipment purchase and repair	42,253	-	12,934	55,187	1,455	250	1,705	56,892
Staff development	16,242	6,942	15,369	38,553	9,196	4,836	14,032	52,585
Travel and transportation	5,350	8,363	4,327	18,040	40,821	17,000	57,821	75,861
	15,030,051	1,825,443	4,205,558	21,061,052	1,821,598	1,369,575	3,191,173	24,252,225
ReStore cost of purchased inventory netted against revenue	-	-	1,079,423	1,079,423	-	-	-	1,079,423
Total functional expenses	\$ 15,030,051	\$ 1,825,443	\$ 5,284,981	\$ 22,140,475	\$ 1,821,598	\$ 1,369,575	\$ 3,191,173	\$ 25,331,648

Habitat for Humanity of Metro Denver, Inc.

Consolidated Statement of Functional Expenses

Year Ended June 30, 2021

	Program Services				Support Services			Total
	Home Construction	Family and Mortgage Services	ReStores	Total Program Services	Management and General	Fundraising Activities	Total Support Services	
Cost of homes sold	\$ 9,157,619	\$ -	\$ -	\$ 9,157,619	\$ -	\$ -	\$ -	\$ 9,157,619
Salaries and wages	1,399,004	1,075,531	1,759,572	4,234,107	650,592	695,986	1,346,578	5,580,685
Volunteer labor on homes	419,405	-	-	419,405	-	-	-	419,405
Occupancy	279,393	50,809	534,327	864,529	18,090	21,756	39,846	904,375
Payroll taxes and benefits	292,810	183,713	384,771	861,294	123,848	146,700	270,548	1,131,842
Habitat for Humanity International tithe	300,000	-	-	300,000	-	-	-	300,000
Depreciation and amortization	147,537	9,235	122,619	279,391	28,824	9,683	38,507	317,898
Professional fees	17,606	113,551	16,967	148,124	162,385	21,168	183,553	331,677
Bank fees	-	6,463	127,401	133,864	-	34	34	133,898
Insurance	64,237	49,046	195,900	309,183	36,884	44,966	81,850	391,033
Other construction costs	250,227	33,071	194,161	477,459	276	-	276	477,735
Marketing and communications	-	-	88,997	88,997	5,000	191,763	196,763	285,760
Office supplies	80,535	56,321	107,918	244,774	95,080	42,828	137,908	382,682
Vehicle costs	58,715	-	150,606	209,321	1,013	-	1,013	210,334
Interest	47,440	11,443	-	58,883	39,832	7,538	47,370	106,253
Volunteer costs	148,830	5,369	11,951	166,150	829	-	829	166,979
Telephone	27,299	20,025	57,321	104,645	19,381	17,348	36,729	141,374
Printing and postage	6,343	9,871	29,277	45,491	5,500	20,258	25,758	71,249
Miscellaneous	79,591	97,366	4,079	181,036	10,466	17,517	27,983	209,019
Donated goods and services	3,200	5,935	-	9,135	12,766	3,832	16,598	25,733
Administrative fees	14,408	104	1,395	15,907	45,692	122	45,814	61,721
Equipment purchase and repair	29,409	-	18,513	47,922	2,862	223	3,085	51,007
Staff development	7,155	1,758	4,767	13,680	5,842	1,962	7,804	21,484
Travel and transportation	932	322	1,476	2,730	6,187	1,614	7,801	10,531
	12,831,695	1,729,933	3,812,018	18,373,646	1,271,349	1,245,298	2,516,647	20,890,293
ReStore cost of purchased inventory netted against revenue	-	-	1,008,351	1,008,351	-	-	-	1,008,351
Total functional expenses	\$ 12,831,695	\$ 1,729,933	\$ 4,820,369	\$ 19,381,997	\$ 1,271,349	\$ 1,245,298	\$ 2,516,647	\$ 21,898,644

Habitat for Humanity of Metro Denver, Inc.

Consolidated Statement of Cash Flows

Years Ended June 30, 2022 and 2021

	2022	2021
Cash Flows from Operating Activities		
Change in net assets	\$ 18,854,200	\$ 9,821,791
Adjustments to reconcile change in net assets to net cash and cash equivalents from operating activities:		
Mortgages made to homeowners	(8,567,591)	(8,604,808)
Amortization of mortgage loan discounts	(457,567)	(333,348)
Depreciation and amortization expense	299,078	317,898
Amortization of New Markets Tax Credit loan costs	39,356	39,359
Gain on sale of assets	(4,870,658)	(1,000)
Deferred rent	132,177	(23,441)
Investment return on investments held by The Denver Foundation	651,665	(976,212)
Forgiveness of notes payable	-	(1,705,600)
Gain on sale of mortgage notes receivable	(349,592)	(142,474)
Contribution of Colorado Community Land Trust-Denver, LLC - Net of cash received	-	(5,420,950)
Donated land held in trust	(395,112)	(85,000)
Contributed rent at below-market rates under long-term leases	(664,500)	-
Changes in operating assets and liabilities that provided (used) cash and cash equivalents:		
Grants receivable	156,500	410,913
Real estate under development	(2,090,287)	1,795,343
Other receivables and assets	(1,519,406)	(411,101)
Change in New Markets Tax Credit investment - Net	-	22
Accounts payable	421,288	183,576
Accrued expenses	809,248	158,041
Homeowner deposits	(4,057)	18,371
Net cash and cash equivalents provided by (used in) operating activities	2,444,742	(4,958,620)
Cash Flows from Investing Activities		
Purchases of investments held by The Denver Foundation	(4,000,000)	(2,300,000)
Distributions for fees paid to The Denver Foundation	118,531	55,598
Mortgage principal and related amounts received - Net of repurchases and modifications	1,314,581	1,673,268
Proceeds from sale of mortgages	9,761,144	7,768,093
Payments for purchase of property and equipment	(235,577)	(224,246)
Proceeds from sale of property and equipment	5,814,199	1,000
Net cash and cash equivalents provided by investing activities	12,772,878	6,973,713
Cash Flows from Financing Activities		
Payments on line of credit	-	(1,007,441)
Repayments of notes payable	(372,371)	(262,287)
Proceeds of notes payable HFHI	-	14,285
Repayments of notes payable HFHI	(40,589)	(75,476)
Net cash and cash equivalents used in financing activities	(412,960)	(1,330,919)
Net Increase in Cash and Cash Equivalents	14,804,660	684,174
Cash and Cash Equivalents - Beginning of year	6,432,149	5,747,975
Cash and Cash Equivalents - End of year	\$ 21,236,809	\$ 6,432,149
Supplemental Cash Flow Information - Cash paid for interest	\$ 32,708	\$ 66,894

Note 1 - Nature of Organization

Habitat for Humanity of Metro Denver, Inc.

Habitat for Humanity of Metro Denver, Inc. (Habitat) is a nonprofit corporation formed on April 20, 1979 to raise funds to build, rehabilitate, and repair affordable housing for low-income individuals who presently live in inadequate housing or cannot purchase housing through conventional sources. To qualify for housing, applicants must demonstrate need for housing, ability to pay for the services, and willingness to partner with Habitat. All Habitat partner families complete sweat equity, attend homeowner education classes, and pay for their home or repairs. Financing for individuals purchasing homes is provided by Habitat utilizing below-market interest rate financing, and monthly payments meet HUD's affordability standards.

Habitat operates four Home Improvement Outlets (the "ReStores") to provide the community with a source of low-cost materials for home improvement, to reduce the volume of materials going to landfills, and to generate funds for Habitat. Many Habitat homeowners volunteer at the ReStores to earn sweat equity hours and work experience.

Habitat is an affiliate of Habitat for Humanity International (Habitat International or HFHI).

Affordable Mortgage Solutions, LLC

Affordable Mortgage Solutions, LLC (AMS) is a not-for-profit, wholly owned subsidiary of Habitat and commenced operations on July 10, 2018. AMS' mission is to provide affordable home mortgages to low- and moderate-income families who lack adequate access to capital, with a purpose of providing services that expand homeownership opportunities to underserved individuals and families. AMS will provide mortgages for Habitat's traditional residential construction business for borrowers of up to 80 percent of area median income (AMI), and it will expand its lending services to provide mortgages to low- and moderate-income families (up to 100 percent AMI) buying homes listed on the open market (homes not constructed or renovated by Habitat).

On April 18, 2019, AMS received certification from the Department of the Treasury's Community Development Financial Institution Fund (the "CDFI Fund") as a Community Development Financial Institution (CDFI). A CDFI certification provides eligibility for financial assistance (loans and grants) from the CDFI Fund and is believed to enhance a financial institution's ability to attract private sector capital, including funding from foundations, state and local governments, and other banks and financial institutions.

Consistent with Habitat's historical underwriting practices, mortgages are offered at a below-market interest rate, down payment requirements are minimal, and private mortgage insurance (PMI) is waived. Total housing-related expenses (principal, interest, property taxes, homeowner's insurance, and HOA, if applicable) will not exceed 30 percent of the borrower's gross household income. Additionally, all borrowers must be willing to partner with Habitat by committing their energy (through sweat equity), time (by participating in financial literacy and home ownership classes), and financial resources (contributing to a down payment and closing costs). These partnership activities are deemed critical to the continued success of its lending to lower-income families.

Although AMS is a distinct and separate legal entity from Habitat, it will be disregarded for tax purposes and included in Habitat's IRS Form 990. Through a shared services agreement, Habitat has committed to provide certain management and administrative and homebuyer program services to AMS, and AMS has committed to provide mortgage loan origination and loan servicing for Habitat. Habitat has also agreed to cover any AMS operating expenses in excess of its revenue for the foreseeable future.

Note 1 - Nature of Organization (Continued)

Colorado Community Land Trust-Denver, LLC

Colorado Community Land Trust-Denver, LLC (CCLT-Denver) was formed in 2014 as part of a partnership with the Denver Housing Authority. Initially, CCLT-Denver focused solely on homes built on the former Lowry Air Force Base and was instrumental in the completion of 189 homes in the Lowry neighborhood. Since then, CCLT-Denver expanded its service area and now has a total portfolio of 226 homes located throughout Lowry, Speer, Cole, and Swansea neighborhoods within the City and County of Denver. CCLT-Denver's mission is to provide opportunities for low- and moderate-income people to secure decent affordable housing and to assure quantity, quality, and affordability of housing for future low- and moderate-income individuals.

As further described in Note 18, Habitat and Lowry Community Land Trust dba Colorado Community Land Trust (Lowry Community Land Trust), a Colorado nonprofit corporation, entered into a member substitution agreement on July 30, 2020. Lowry Community Land Trust was the manager of CCLT-Denver prior to the execution of the member substitution agreement. Effective with this agreement, Habitat assumed 99 percent of the membership interest in CCLT-Denver. The Denver Housing Authority remains as the owner of 1 percent of the membership interest of CCLT-Denver. Under the agreement, Lowry Community Land Trust's operations were to be wound down and all remaining assets and liabilities transferred to Habitat. Lowry Community Land Trust was dissolved in November 2021, and its remaining assets, which included cash of approximately \$245,000, were transferred to Habitat.

CCLT-Denver is a 501(c)(3) limited liability company. As the Denver Housing Authority owns 1 percent of CCLT-Denver, the land held by CCLT-Denver is property tax exempt in accordance with CRS 29-4-226 and 29-4-227.

Colorado Community Land Trust-Arapahoe, LLC

Colorado Community Land Trust-Arapahoe, LLC (CCLT-Arapahoe) was formed in July 2021 as part of a partnership with the Housing Authority of the City of Littleton, Colorado (dba South Metro Housing Options). Habitat holds 99 percent of the membership interest in CCLT-Arapahoe, with South Metro Housing Options holding the remaining 1 percent. CCLT-Arapahoe's mission is to provide opportunities for low- and moderate-income people to secure decent affordable housing and to assure quantity, quality, and affordability of housing for future low- and moderate-income individuals in the South Denver area. CCLT-Arapahoe has a total portfolio of 12 homes located throughout the South Denver and Arapahoe County area.

CCLT-Arapahoe is a 501(c)(3) limited liability company. As South Metro Housing Options owns 1 percent of CCLT-Arapahoe, the land held by CCLT-Arapahoe is property tax exempt in accordance with CRS 29-4-226 and 29-4-227.

Habitat Community Housing Development, Inc.

Habitat Community Housing Development, Inc. (HCHD) was a separately incorporated nonprofit corporation formed for the purpose of obtaining certain federal funds set aside for community housing development organizations that will be used by Habitat for the construction of affordable homes for low-income families. Habitat was the sole member of HCHD until the entity was dissolved in August 2020.

HFHMD Funding Company I, LLC

HFHMD Funding Company I, LLC (HFCl) is a separately incorporated limited liability company formed for the purpose of holding certain mortgages that have been securitized with a bank. Habitat is the sole member of HFCl.

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

Note 2 - Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of Habitat, AMS, CCLT-Denver, CCLT-Arapahoe, HCHD, and HFCI, which are collectively referred to herein as Habitat. All material interorganization accounts and transactions have been eliminated in consolidation.

Basis of Presentation

The consolidated 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 Equivalents

Habitat considers all investments with an original maturity of three months or less when purchased to be cash equivalents, unless held for reinvestment as part of the investment portfolio or otherwise encumbered.

Investments

Investments held by The Denver Foundation (the "Foundation") are stated at their fair values in the consolidated statement of financial position. Unrealized gains and losses are included in the change in net assets in the consolidated statement of activities and changes in net assets.

Significant Concentrations of Credit Risk

Financial instruments, which potentially subject Habitat to concentrations of credit risk, consist of cash accounts that may, during the year, exceed the federally insured limit set by the FDIC and SIPC, investments held by the Foundation, and mortgage notes receivable. Certain interest-bearing and non-interest-bearing accounts are guaranteed by the FDIC or SIPC up to \$250,000. At June 30, 2022, Habitat had deposits in excess of federally insured limits of approximately \$21,200,000. At June 30, 2022, Habitat had on deposit approximately \$10,000,000 in cash with an investment manager pending investment pursuant to its investment policy. These funds are held in an interest-bearing account guaranteed by certain private insurance held by the investment manager up to an additional \$1,500,000 over the SIPC limits. Habitat reduces credit risk by placing its cash and temporary investments with creditworthy, high-quality financial institutions.

Habitat finances the construction and ownership of homes to low-income individuals in the Denver metro area. The mortgages are secured by a deed of trust. Habitat has established procedures to limit the risk of default through two primary practices. First, Habitat includes a long-term affordability covenant in mortgages, through which it charges below-market interest and sets the first mortgage such that the monthly payment is no more than 30 percent of gross monthly income, thereby designing the monthly mortgage payments of the owners to be manageable. In this scenario, Habitat homes are appraised for value prior to sale, with the sale price being set at appraised (or fair market) value. Habitat may utilize down payment assistance or a subordinate second mortgage to bring the first mortgage down to an affordable level based on a specific family's financial situation. Second, Habitat utilizes a community land trust model, in which it sells homes while maintaining the underlying land in trust to be held in perpetuity. In this scenario, the sale price and first mortgage on the home are set to the appraised value of the property, less the value of the land, as the homebuyer is only purchasing the improvements, thereby resulting in a lower cost of ownership. Under both practices, the values of homes that collateralize the mortgage notes receivable are subject to market value fluctuations beyond the control of management.

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

Note 2 - Significant Accounting Policies (Continued)

Credit risk with respect to contributions receivable is limited due to the number and creditworthiness of the corporations, foundations, churches, and individuals that comprise the contributor base. During the year ended June 30, 2022, one donor accounted for approximately 64 percent of contribution and grant revenue. There were no significant concentrations of contribution and grant revenue during the year ended June 30, 2021.

Real Estate Under Development

Homes Under Construction

Costs incurred in conjunction with home construction are recorded as assets until the sale of the home. A reserve to bring them to the lower of cost or net realizable value would be recorded if cost exceeded future value. At June 30, 2022 and 2021, no reserve was considered necessary.

Property Held for Sale or Future Development

Property held for sale or future development consists of (a) homes that have been reacquired due to collection problems with homeowners 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 net realizable value. The proceeds of disposal are expected to approximate the net carrying amount of the relevant assets and liabilities, and, accordingly, no impairment loss has been recognized on the classification of property held for sale.

Land Held in Trust

Land held in trust is composed of land to be held in perpetuity by CCLT-Denver and CCLT-Arapahoe. The land held in trust is recorded at its fair value at the date of the member substitution agreement (see Note 18), cost, or contributed value.

Escrow Deposits Held in Trust

Habitat services the mortgages on the homes it sells. Certain mortgages are subsequently sold or pledged as collateral on notes payable to third parties, one of which services the loans it holds, and the other group of loans continues to be serviced by Habitat. Escrow deposits held in trust include amounts received for insurance, property taxes, and other fees on such loans that Habitat services.

Property and Equipment

Property and equipment with value in excess of \$5,000 are recorded at cost. The straight-line method is used for computing depreciation and amortization. Assets are depreciated over their estimated useful lives, which range from 3 to 30 years. The cost of leasehold improvements is amortized over the lesser of the length of the related leases or the estimated useful lives of the assets. Costs of maintenance and repairs are charged to expense when incurred.

Impairment or Disposal of Long-lived Assets

Habitat reviews the recoverability of long-lived assets, including buildings, equipment, and other long-lived assets, when events or changes in circumstances occur that indicate the carrying value of the asset may not be recoverable. The assessment of possible impairment is based on the ability to recover the carrying value of the asset from the expected future cash flows (undiscounted and without interest charges) of the related operations. If these cash flows are less than the carrying value of such asset, an impairment loss is recognized for the difference between estimated fair value and carrying value. The measurement of impairment requires management to make estimates of these cash flows related to long-lived assets, as well as other fair value determinations.

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

Note 2 - Significant Accounting Policies (Continued)

Deferred Finance Charges

During 2018, Habitat capitalized the costs associated with obtaining the New Markets Tax Credit (NMTC) loan described in Note 8. These deferred loan costs are being amortized over the life of the related note payable using a method approximating the effective interest method. Amortization of deferred loan costs is included in interest expense in the accompanying consolidated statement of functional expenses. Amortization expense for the years ended June 30, 2022 and 2021 was \$39,356 and \$39,359, respectively. The unamortized balance at June 30, 2022 and 2021 was netted against the corresponding NMTC notes payable (see Note 8).

Deferred Rent

Habitat recognizes rent expense on a straight-line basis over the term of the lease. Deferred rent reflects the accumulated difference between actual rent payments and expense recognized.

Classification of Net Assets

Net assets of Habitat are classified based on the presence or absence of donor-imposed restrictions.

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions or for which 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.

Board-designated net assets are net assets without donor restrictions designated based on actions taken by the board of directors, which can be altered or revoked at a future time at the discretion of the board.

Net assets with donor restrictions: Net assets 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, where the donor has stipulated the funds be maintained in perpetuity.

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

Revenue Recognition

Contributions and Contributions Receivable

Unconditional promises to give cash and other assets to Habitat are reported at fair value on the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value on the date the gift becomes unconditional or is received. The gifts are reported as contributions with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities and changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the year in which the gift is received are reported as contributions without donor restrictions in the accompanying financial statements.

Contributions receivable that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. An allowance for uncollectible contributions is provided when evidence indicates amounts promised by donors may not be collectible.

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

Note 2 - Significant Accounting Policies (Continued)

Home Sales

Habitat generates revenue from real estate transactions representing the sale of homes to homebuyers. These home sales are considered to be exchange transactions. During the years ended June 30, 2022 and 2021, Habitat recognized home sale revenue, net of down payment assistance, of \$8,327,983 and \$8,733,017, respectively.

Habitat enters into contracts with homeowners that include a single performance obligation to provide a completed home to the homebuyer. The performance obligation in each contract is satisfied at a point in time when the transfer of title to the homebuyer is complete, which occurs when the title and mortgages are signed at closing. Control is transferred at the time the homebuyer can move into the home upon closing. In connection to the home sales, Habitat originates mortgages receivable. At the time of closing of the home sale, certain fees are collected by Habitat in relation to originating mortgages receivable. For 2022 and 2021, these fees were \$84,956 and \$97,439, respectively, and are included in other revenue on the consolidated statement of activities and changes in net assets. These fees are recognized at a point in time.

The transaction price for home sales is determined based on the third-party appraised value of the home reduced by any discounts provided to the homebuyer by Habitat. The resulting mortgages can be interest or non-interest bearing and are recorded as described further in Note 6.

There are no contract assets associated with these contracts recorded as of June 30, 2022 and 2021 or at the beginning of the year ended June 30, 2021. Homeowner deposits (contract liabilities) are composed of down payments and fees made in advance of a homeowner gaining control of a completed home. Homeowner deposits as of June 30, 2022 and 2021 and at the beginning of the year ended June 30, 2021 were \$30,564, \$34,621, and \$16,250, respectively.

Donated Goods, Services, and Property

Donated goods utilized in the operations of Habitat, except for goods donated for sale in the ReStores, are recorded at the estimated fair value at the date of the donation. Goods donated for sale in the ReStores are recorded at their sale prices at the time of sale. See Note 17 for additional information.

Donated services are recognized as contributions at estimated fair value on the date of receipt if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by Habitat.

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

Fee for Construction Services

Habitat generates revenue from construction services performed for other nonprofits and homeowners. For the years ended June 30, 2022 and 2021, Habitat recognized fee for construction services revenue of \$1,334,497 and \$646,210, respectively. Unbilled accounts receivable of \$635,000 related to these services has been recorded as of June 30, 2022. There were no accounts receivables outstanding related to fee for service revenue as of June 30, 2021 and the beginning of the year ended June 30, 2021. There were no contract assets or liabilities as of June 30, 2022 and 2021 and at the beginning of the year ended June 30, 2021 related to fee for service revenue.

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

Note 2 - Significant Accounting Policies (Continued)

Habitat's fee for construction services revenue is primarily recognized over time as services are performed, as Habitat generally has an enforceable right to payment for performance completed to date, and the customer receives the benefit as Habitat performs the construction services. Habitat typically invoices fee for services contracts upon the completion of projects and provides that customers pay within 30 days of invoice. Habitat's fee for service contracts occasionally contain multiple performance obligations, with the transaction price for services being performed being allocated on a relative stand-alone selling price (SSP) basis. The SSP is the price at which Habitat would sell a promised service separately to a customer in similar circumstances and to similar customers. In most cases, fee for service contracts are cancelable but require payment for performance to date. Therefore, at the time revenue is recognized, Habitat does not estimate expected refunds for services, nor does Habitat exclude any such amounts from revenue.

Sales from ReStores

Habitat generates revenue through transactions with customers at its ReStore locations in the metro Denver area. For the years ended June 30, 2022 and 2021, Habitat recognized ReStore sales of \$5,883,246 and \$6,292,980, respectively. ReStore sales did not generate any contract assets or liabilities as of June 30, 2022 and 2021 and at the beginning of the year ended June 30, 2021.

Habitat's ReStore sales revenue is recognized at a point in time, as the products are homogenous and can be sold to a variety of customers. Habitat recognizes revenue when it satisfies a single performance obligation by transferring control of its products and the risk of loss to a customer. Control is generally transferred when the ReStore products are provided to the customer at the ReStore location in exchange for cash. Habitat does not have significant financing components or payment terms related to ReStore sales. Sales to customers have fixed transaction prices that are denominated in U.S. dollars and payable in cash.

Habitat excludes from revenue all taxes assessed by a governmental authority that are imposed on the sales from ReStores and collected from customers (e.g., sales tax).

Customer returns can be made up to 30 days after purchase, subject to certain limitations. Habitat does not reserve for potential returns from customers and associated refunds or credits related to such returns, as these amounts are typically insignificant. Habitat does not offer warranties on goods sold.

Functional Allocation of Expenses

Costs of providing program and other support services have been reported on a functional basis in the consolidated statement of functional expenses. The consolidated financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. Expenses incurred directly for a program service are charged to such service. Payroll, payroll taxes, and related expenses are allocated based on actual time spent on specific program activities and based on periodic time and effort studies. Fringe benefits are allocated to all services on a pro rata basis of total direct salary expenses incurred. Certain overhead costs are also allocated to services on a pro rata basis of total square footage occupied by each service. Costs have been allocated between the various program and support services based on estimates determined by management. Although the methods of allocation used are considered appropriate, other methods could be used that would produce different amounts.

Income Taxes

Habitat and HCHD are not-for-profit corporations and are exempt from tax under the provisions of Internal Revenue Code Section 501(c)(3). CCLT-Denver and CCLT-Arapahoe are not-for-profit limited liability companies and are exempt from tax under the provisions of Internal Revenue Code Section 501(c)(3). HFCl and AMS are disregarded entities for tax purposes and are, therefore, included in the tax reporting of Habitat.

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

Note 2 - Significant Accounting Policies (Continued)

Adoption of New Accounting Pronouncement

As of July 1, 2021, Habitat adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. ASU No. 2020-07 provided additional disclosures to support clearer financial information about important noncash contributions that charities and other not-for-profit organizations receive, known as gifts in kind (GIKs). Contributed nonfinancial assets are reported by category within the consolidated financial statements, and there are additional disclosures included for each category, including whether the nonfinancial assets were monetized or used during the reporting period, the policy for monetizing nonfinancial contributions, and description of the fair value techniques used to arrive at a fair value measurement. The ASU was implemented on a retrospective basis for the year ended June 30, 2022. The ASU did not require a restatement of June 30, 2021 amounts; however, \$4,224,804 of contributed goods sold in ReStores on the consolidated statement of changes in net assets was reclassified as a result of the adoption. The amount previously reported within total ReStore sales has been disaggregated to identify ReStore sales from purchased goods and ReStore sales from donated goods separately, as required by the ASU.

Upcoming Accounting Pronouncement

The FASB issued ASU No. 2016-02, *Leases*, which will supersede the current lease requirements in ASC 840. The ASU requires lessees to recognize a right-to-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 activities and changes in net assets. Currently, leases are classified as either capital or operating, with only capital leases recognized on the statement of financial position. The reporting of lease-related expenses in the statements of activities and changes in net assets and cash flows will be generally consistent with the current guidance. The new lease guidance will be effective for Habitat's year ending June 30, 2023 and will be applied using a modified retrospective transition method to either the beginning of the earliest period presented or the beginning of the year of adoption. Habitat is still evaluating which method it will apply. The new lease standard is expected to have a significant effect on Habitat's consolidated financial statements as a result of Habitat's operating leases, as disclosed in Note 19, that will be reported on the consolidated statement of financial position at adoption. Upon adoption, Habitat will recognize a lease liability and corresponding right-to-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.

Reclassifications

Deferred mortgage origination fees of \$105,743 previously reported as homeowner deposits as of June 30, 2021 have been reported as accrued expenses on the accompanying consolidated statements of financial position and cash flows. Fee for construction services revenue of \$646,210 and gains on sales of property and equipment of \$1,000 during the year ended June 30, 2021 have been reclassified from home sale revenue and other income on the accompanying consolidated statement of activities and changes in net assets. Construction services expense of \$319,442 for the year ended June 30, 2021 has been reclassified from cost of homes sold on the consolidated statement of functional expenses.

Subsequent Events

The consolidated financial statements and related disclosures include evaluation of events up through and including September 26, 2022, which is the date the consolidated financial statements were available to be issued.

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

Note 3 - Liquidity and Availability of Resources

The following reflects Habitat's financial assets as of June 30, 2022 and 2021, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the consolidated statement of financial position date:

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 21,236,809	\$ 6,432,149
Investments held by The Denver Foundation	9,044,751	5,814,947
Other receivables and assets	1,271,924	-
Grants receivable	84,577	241,077
Mortgage notes receivable - Available for sale and balances collectible within one year	8,686,673	10,210,849
Donor-imposed restrictions	(3,923,669)	(2,172,932)
Board-advised funds	<u>(2,000,000)</u>	<u>(2,000,000)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 34,401,065</u>	<u>\$ 18,526,090</u>

Habitat manages its liquidity and reserves following three guiding principles:

- Operating within a prudent range of financial soundness and stability
- Maintaining adequate liquid assets to meet general expenditures expected within one year of fiscal year end
- Monitoring potential changes in the Community Reinvestment Act that could adversely impact the market for low- and moderate-income mortgage loans

Habitat strives to maintain liquid assets in an amount equal to or greater than 120 percent of total general expenditures and cash and cash equivalents on hand equal to or greater than two months of operating expenses at all times.

In addition to the liquid assets described above, Habitat has two committed lines of credit in the amounts of \$2,000,000 and \$1,881,000 at June 30, 2022, which it could draw upon if needed, as further described in Note 10.

During the years ended June 30, 2022 and 2021, the level of liquidity and reserves was managed within the policy requirements.

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

Note 4 - Investments Held by The Denver Foundation

Invested funds at The Denver Foundation (the "Foundation") are pooled with other funds in a diversified portfolio maintained by the Foundation in order to realize the benefits of common administration, but Habitat retains all legal and equitable ownership rights.

Habitat's investment portfolio has incurred fluctuations and declines in fair value, consistent with general fluctuations in the financial market during the year ended June 30, 2022 and subsequent to year end. Because Habitat invests in a diversified portfolio of individual investments held by the Foundation, which implements investment strategies to mitigate losses during market downturns, the amount of losses that will be recognized in subsequent periods, if any, cannot be determined.

The net investment return on Habitat's pro rata share of the pooled investments held by the Foundation is summarized as follows:

	2022	2021
Ordinary income	\$ 73,171	\$ 74,393
Realized gains	256,674	46,470
Unrealized (loss) gain	(981,510)	855,349
Investment management fees	(118,531)	(55,598)
Investment return - Net	<u>\$ (770,196)</u>	<u>\$ 920,614</u>

Included in net investment return on the consolidated statement of activities and changes in net assets are certain earnings on the NMTC investment, as described further in Note 8, of \$29,334 and \$29,345 as of June 30, 2022 and 2021, respectively.

Note 5 - Fair Value Measurements

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 inputs and valuation techniques used to measure fair value.

Fair values determined by Level 1 inputs use quoted prices in active markets for identical assets 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 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. 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.

In instances where inputs used to measure fair value fall into different levels in the above 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.

The carrying amounts of financial assets required to be measured at fair value on a recurring basis include investments held by the Foundation, the fair value of which is based upon information determined and reported by the Foundation and corroborated with the Foundation's audited financial statements by management. Habitat's pro rata share of the pooled investments does not have an active market and is, therefore, classified under Level 3 in the fair value hierarchy.

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

Note 5 - Fair Value Measurements (Continued)

Changes in Level 3 assets measured at fair value on a recurring basis for the years ended June 30, 2022 and 2021 are as follows:

	2022	2021
Beginning balance	\$ 5,814,947	\$ 2,594,333
Investment return - Net of unrealized and realized gains and losses	(651,665)	976,212
Contributions	4,000,000	2,300,000
Distributions for fees paid to the Foundation	(118,531)	(55,598)
Ending balance	<u>\$ 9,044,751</u>	<u>\$ 5,814,947</u>

Note 6 - Mortgage Notes Receivable

Mortgage notes receivable consist of non-interest-bearing and below-market interest-bearing notes received from homebuyers in connection with the sale of homes constructed by Habitat. Habitat has two classes of loans. The first class of notes is those that are discounted to their present values using the market rate of interest at the closing date; the discount rate varies from approximately 1.6 to 8.8 percent. These notes are expected to be held to maturity. For mortgages that include a below-market interest rate, the notes are discounted to their present values using the difference between the below-market rate and the market rate of interest at the closing date. The discount is amortized over the lives of the mortgages using the effective interest method. The second class of notes is those that are classified as available for sale and held at their face value. Habitat determines the proper accounting for loans based upon the individual characteristics of the underlying mortgage and its ability to market the receivable. Funds received from sale of mortgage notes receivable are reinvested in Habitat. Gains on the sale of mortgage notes receivable are included in revenue, gains, and other support on the consolidated statement of activities and changes in net assets.

Habitat's mortgage notes receivable are as follows:

	2022	2021
Held to maturity - Net	\$ 10,614,086	\$ 10,791,245
Available for sale	7,688,553	9,212,369
Total	<u>\$ 18,302,639</u>	<u>\$ 20,003,614</u>

Habitat's held to maturity mortgage notes receivable are broken down as follows:

	2022	2021
Face value of outstanding held to maturity mortgage notes receivable	\$ 14,644,088	\$ 15,278,814
Less discount	(4,030,002)	(4,487,569)
Total	<u>\$ 10,614,086</u>	<u>\$ 10,791,245</u>

Approximately \$1,000,000 will be due in the year ending June 30, 2023 on the above notes.

All mortgage notes receivable are collateralized by the respective homes sold. A committee of the board meets together with management on a regular basis to review delinquent loans and to consider if any foreclosure proceedings should be initiated. Receivable balances are considered to be delinquent based on contractual terms. The need for an allowance is based on past collection experience and on analysis of current mortgage receivable collectibility. Management believes that the fair value of each underlying mortgaged asset exceeds the value of the associated loan outstanding; therefore, no allowance for uncollectible mortgages is recorded.

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

Note 6 - Mortgage Notes Receivable (Continued)

Loans Sold to a Colorado Governmental Agency

During the years ended June 30, 2022 and 2021, AMS sold its interest in certain mortgages receivable under agreements with a Colorado governmental agency (CGA). During the years ended June 30, 2022 and 2021, AMS received cash proceeds of \$1,541,777 and \$1,199,541, respectively. These transactions were recorded as sales.

The current and previous years' sales agreement with the CGA requires, among other things, that should a mortgagor default on the payment on a loan and the default not be cured within 60 days, Habitat may be required to substitute one or more other mortgage loans, which have an aggregate principal balance at least equal to but not more than 125 percent of the outstanding balance of the mortgage loan being replaced, or repurchase the defaulted loan. Habitat will be reimbursed for the excess of the outstanding principal balance of the replacement mortgage loan over the outstanding principal balance of the mortgage loan being replaced. No liability has been recorded for this substitution provision because management believes that the fair value of each underlying mortgaged asset exceeds the value of the associated loan. At June 30, 2022 and 2021, the outstanding principal balance of loans held by the CGA that are guaranteed by Habitat and AMS was approximately \$10,302,000 and \$9,690,000, respectively. There were no repurchases during the year ended June 30, 2021. There were repurchases of \$7,077 during the year ended June 30, 2021.

Loans Sold to Banks

Habitat has entered into agreements to sell its interest in certain mortgages receivable to banks. These transactions are recorded as sales. Habitat continues to service these loans on the banks' behalf.

The sales agreements with banks require, among other things, that should a mortgagor default on the payment on a loan and the default not be cured within an established number of days per the agreements, Habitat is required to perform one of the following based on the underlying sales agreements: repurchase the loan, or substitute with a performing loan of equitable terms, balance, and property. Habitat will be reimbursed for the excess of the outstanding principal balance of the replacement mortgage loan over the outstanding principal balance of the mortgage loan being replaced. No liability has been recorded for this substitution provision because management believes that the fair value of each underlying mortgaged asset exceeds the value of the associated loan.

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

Note 6 - Mortgage Notes Receivable (Continued)

The following summarizes Habitat loans sold to banks and the outstanding principal balance of loans serviced by Habitat as of June 30, 2022 and 2021:

Bank Acquiring Mortgage Loan	Fiscal Year of Sale	Outstanding Principal Balance of Loans Guaranteed as of June 30		
		Habitat Proceeds Received	2022	2021
Bank F	2022	\$ 2,043,777	\$ 2,043,240	\$ -
Bank E	2022	6,175,590	5,766,114	-
Bank F	2021	2,032,150	1,976,869	2,027,622
Bank B	2021	4,478,006	4,317,834	4,424,464
Bank B	2020	3,315,847	3,621,477	3,818,214
Bank E	2019	1,929,688	1,636,473	1,723,955
Bank E	2019	1,296,821	1,131,509	1,161,948
Bank B	2019	3,299,168	2,986,233	3,268,353
Bank B	2019	3,351,866	3,356,202	3,543,349
Bank C	2018	1,246,478	1,000,636	1,102,701
Bank C	2017	1,717,024	1,322,248	1,452,688
Bank B	2016	4,718,966	2,995,740	3,409,885
Bank B	2015	5,614,408	3,803,138	4,368,350
Bank A	2014	1,032,467	870,379	921,156
Bank A	2013	1,991,754	1,322,795	1,441,158

Loans Transferred to a Bank

In previous years, Habitat transferred its interest in certain mortgages receivable to HFCI, which collateralized its interest in those mortgages receivable to Bank D, by entering into certain note payable agreements and receiving cash proceeds related to the transaction. These transactions were recorded as loans. Habitat continues to service these mortgages. See Note 11 for notes payable to Bank D.

The following summarizes Habitat loans transferred to a bank:

Bank Acquiring Transferred Loan	Fiscal Year of Sale	Outstanding Principal Balance of Mortgage Collateralized as of June 30		
		Habitat Proceeds Received	2022	2021
Bank D*	2020	\$ 2,915,933	\$ 2,904,654	\$ 3,021,133
Bank D	2018	2,997,488	2,410,605	2,537,620
Bank D	2014	1,032,467	675,395	722,915

*The outstanding principal balance as of June 30, 2022 and 2021 for this transaction includes certain payments on mortgages not subject to collateralization that have original payment schedules with the homeowner greater than 30 years in length.

Note 7 - Real Estate Under Development

Real estate under development consists of undeveloped land and infrastructure costs, as well as partially completed single-family and multifamily dwellings. At June 30, 2022 and 2021, 137 and 100 units, respectively, were under development beyond the land purchase phase. Included in the units under development are 94 and 57 home repair projects at June 30, 2022 and 2021, respectively.

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

Note 7 - Real Estate Under Development (Continued)

Habitat's real estate under development is composed of the following:

	2022	2021
Home repairs and renovation units	\$ 7,034,301	\$ 3,438,300
Construction in progress	4,138,035	4,904,288
Land under development	1,112,499	2,034,376
Total	<u>\$ 12,284,835</u>	<u>\$ 10,376,964</u>

There were transfers of \$182,416 from real estate under development to land held in trust during the year ended June 30, 2022. There were no transfers to land held in trust or property and equipment during the year ended June 30, 2021.

Note 8 - Investment in HFHI NMTC Leveraged Lender 2016-1, LLC

During November 2017, Habitat participated in an NMTC program. As a participant in this program, Habitat invested in HFHI NMTC Leveraged Lender 2016-1, LLC (HFHI NMTC) with other affiliates of HFHI and also entered into a promissory note with HFHI NMTC SUB-CDE II, LLC, a qualified CDE. Habitat has invested in a 13.58 percent ownership of HFHI NMTC, which was initially recorded at its cost of \$2,933,529, and records its share of income or loss as an adjustment to the investment balance and investment income or loss. HFHI NMTC invested these funds in an investment fund, which in turn made an investment in the CDE. There was no change in Habitat's investment balance during the year ended June 30, 2022. During the year ended June 30, 2021, the change in Habitat's investment balance was \$22 for net contributions and distributions from HFHI NMTC.

The following is unaudited summarized financial information as to assets, liabilities, and results of operations of HFHI NMTC:

	2022	2021
Total assets	\$ 21,490,480	\$ 21,490,480
Total revenue	216,090	216,090
Net income	216,090	216,090

In exchange for the investment and promissory note during 2017, Habitat received a net cash inflow of approximately \$1,057,000, net of transaction expenses, which was utilized to build homes or infrastructure or acquire land. Habitat is required to maintain a separate accounting of the activities undertaken using the loan proceeds, build homes in qualified census tracts, and build one home per year from these funds for years two through seven. As of June 30, 2022 and 2021, Habitat is in compliance with these conditions.

Habitat has a promissory note due to the CDE of \$4,351,669, net of loan costs as of June 30, 2022 and 2021 of \$110,207 and \$149,563, respectively. This note requires semiannual interest-only payments until November 2024 at 0.67 percent. The loan matures in November 2047 and is secured by substantially all the assets acquired from the loan proceeds. The interest is paid to the CDE by Habitat and other affiliates of HFHI in proportion to their ownership of HFHI NMTC, which is repaid to the investment fund. The interest is then returned to HFHI NMTC, and, ultimately, 99.99 percent of the interest is returned to Habitat and other affiliates of HFHI based on their percentage ownership of HFHI NMTC. In December 2024, the investment fund may exercise a put option, resulting in HFHI NMTC holding the debt, thereby releasing Habitat from any obligation outstanding under the promissory note.

Habitat was in compliance with the solvency and debt service coverage ratios required by the note agreement as of June 30, 2022 and 2021.

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

Note 9 - Property and Equipment

Property and equipment are summarized as follows:

	2022	2021
Buildings and improvements	\$ 2,548,505	\$ 2,537,747
Rental units	1,071,001	1,071,001
Leasehold improvements	733,535	726,525
Vehicles	537,918	454,552
Office equipment	288,702	173,618
Furniture and fixtures	159,577	140,904
Construction equipment	82,806	82,806
Buildings and improvements - Held for sale	-	944,078
Total cost	5,422,044	6,131,231
Accumulated depreciation	2,307,273	2,009,418
Property and equipment - Net	<u>\$ 3,114,771</u>	<u>\$ 4,121,813</u>

Depreciation and amortization expense related to property and equipment for 2022 and 2021 was \$299,078 and \$317,898, respectively.

During June 2021, Habitat entered into a purchase and sale agreement to sell its headquarters building and certain related improvements for \$6,000,000. As a result of this transaction, Habitat ceased depreciating the assets subject to sale and separately classified them as held for sale in the table above as of June 30, 2021. The transaction closed during the year ended June 30, 2022, resulting in net proceeds of approximately \$5,815,000, which have been recorded as a component of gain on sale of assets on the consolidated statement of activities and changes in net assets. As the sale price was in excess of the net book value of the held for sale assets, no impairment loss has been recorded for this transaction.

Note 10 - Lines of Credit

Habitat has entered into two line of credit agreements with the same bank and has available borrowings of approximately \$2,000,000 and \$1,881,000 under these agreements.

Under the agreement for \$2,000,000 entered into on December 13, 2021, borrowings are subject to rates based on *The Wall Street Journal* prime rate minus 0.25 percent, with a floor of 3.00 percent (4.25 and 3.00 percent as of June 30, 2022 and 2021, respectively). An extension to the line of credit was put into effect in December 2021 to extend the line of credit through December 13, 2022. Interest is payable monthly with the outstanding balance due at maturity on December 13, 2022. At June 30, 2022 and 2021, no balance was outstanding on the line of credit.

Habitat entered into a line of credit agreement on June 30, 2020 with a bank with available borrowings of \$1,881,000. In June 2022, Habitat requested the line of credit limit be reduced from \$5,000,000 in order to release certain collateral due to the sale of certain property during the year. Borrowings are subject to rates based on *The Wall Street Journal* prime rate plus 0.75 percent, with a floor of 4.00 percent (5.50 and 4.75 percent as of June 30, 2022 and 2021, respectively). Interest is payable monthly with the outstanding balance due at maturity on June 30, 2023. There were no outstanding borrowings at June 30, 2022 and 2021.

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

Note 11 - Notes Payable

Habitat's notes payable at June 30 are as follows:

	<u>2022</u>	<u>2021</u>
Note payable to Bank D bearing 0 percent interest; payable in equal monthly payments of \$8,157 through April 1, 2048; followed by declining payments ranging from \$7,831 to \$6,106; and maturing on October 1, 2049. The note is secured by deeds of trust related to the underlying mortgage loans pledged by Habitat, of which the first 30 years of payments on these mortgage loans are held as collateral under this agreement (see Note 6)	\$ 2,561,139	\$ 2,760,950
Note payable to Bank D bearing 0 percent interest; payable in equal monthly payments of \$10,482 through November 1, 2033; followed by declining payments ranging from \$10,367 to \$447; and maturing on August 1, 2047. The note is secured by deeds of trust related to the underlying mortgage loans pledged by Habitat (see Note 6)	2,410,496	2,536,280
Note payable to Bank D bearing 0 percent interest; payable in equal monthly payments of \$3,898 through September 1, 2031; followed by declining payments ranging from \$3,611 to \$480; and maturing on March 31, 2042. These payments are equal to the payments due on the borrower's mortgage notes receivable. The note is secured by deeds of trust related to the underlying mortgage loans pledged by Habitat (see Note 6)	677,749	724,525
Promissory note due to the PB and K Family Foundation; interest-only payments due quarterly beginning on June 30, 2020 at 1.5 percent; entire principal balance and all accrued and unpaid interest is due in full at maturity on June 30, 2028. The note is subject to certain financial covenants	250,000	250,000
Total	<u>\$ 5,899,384</u>	<u>\$ 6,271,755</u>

The balance of the above debt matures as follows:

<u>Years Ending June 30</u>	<u>Amount</u>
2023	\$ 267,144
2024	267,144
2025	267,144
2026	267,144
2027	267,144
Thereafter	<u>4,563,664</u>
Total	<u>\$ 5,899,384</u>

Note 12 - Note Payable - PPP Loan

The Paycheck Protection Program (PPP) was established by Congress as part of the Coronavirus Aid, Relief, and Economic Security (CARES) Act. Under this relief program, the legislation authorized the Treasury to use the Small Business Administration (SBA) to fund loans to qualifying entities. The SBA will review forgiveness applications and will forgive up to the full amount of the loan issued if it deems all employee retention and salary level criteria are met and the funds are used for eligible expenses.

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

Note 12 - Note Payable - PPP Loan (Continued)

During April 2020, Habitat received \$1,380,000 in funding under the PPP. The proceeds of this loan were used to maintain workforce and fund certain other allowable expenses under the terms of the program. During the year ended June 30, 2021, Habitat applied for and received notification of forgiveness of the loan from the SBA. Loan forgiveness related to the PPP loan in the amount of \$1,380,000 has been recorded as forgiveness of debt in the consolidated statement of activities and changes in net assets.

Note 13 - Forgivable Notes Payable

Habitat has entered into certain notes payable due to the City and County of Denver, Colorado. No interest or principal payments are required so long as Habitat remains in compliance with the terms and conditions, as stated in the loan agreements. The primary condition of the funding is that it be used for development of certain properties. The amounts will be forgiven and recorded as grants revenue upon the sale of the last units developed at each site with these funds to qualifying homeowners. Forgiveness of certain notes payable occurs on the 99th year of the promissory note date so long as Habitat is in compliance with the terms of the agreements. As of June 30, 2022 and 2021, Habitat is using the remaining funds for those specified purposes and is in compliance with the terms of the note agreements.

During the year ended June 30, 2021, \$325,600 of debt related to these agreements was forgiven and recorded as forgiveness of debt in the consolidated statement of activities and changes in net assets. There was no forgiveness of debt recorded for the year ended June 30, 2022.

As of June 30, 2022 and 2021, Habitat had \$2,650,800 of notes outstanding due to the City and County of Denver, Colorado.

Note 14 - Notes Payable to HFHI

Habitat's notes payable to HFHI consist of the following:

	2022	2021
Unsecured, non-interest-bearing notes payable to Habitat International; payable in monthly installments ranging from \$220 to \$1,742; maturing between May 2023 and December 2027	\$ 243,022	\$ 283,611

Principal payments under the above agreement are as follows:

Years Ending June 30	Amount
2023	\$ 91,686
2024	76,007
2025	44,060
2026	26,814
2027	4,455
Total	\$ 243,022

Note 15 - Net Assets

Net Assets without Donor Restrictions - Board Designated

The board has designated \$2,000,000 of unrestricted net assets at June 30, 2022 and 2021 for future land and infrastructure costs expected on outstanding and planned projects.

Net Assets with Donor Restrictions

Net assets with donor restrictions are entirely for home sponsorships as of June 30, 2022 and 2021.

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

Note 16 - Employee Retention Credit

The CARES Act of 2020 introduced the Employee Retention Credit (ERC) as pandemic relief for eligible organizations. The ERC is a refundable credit against certain employment taxes and qualifies as a government grant. Under generally accepted accounting principles, government grants are recognized as revenue in the period in which an organization substantially overcomes all measurable barriers to be entitled to the funding. Management has determined that the measurable barriers that must be overcome for entitlement to the ERC funding are qualifying for the credits based on meeting the threshold for gross receipts decline in 2021 compared to 2019 and incurring eligible payroll expenses. For the year ended June 30, 2022, Habitat determined these conditions have been met and recognized \$1,337,429 of ERC revenue within contributions and grants revenue on the consolidated statement of activities and changes in net assets.

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

Note 17 - Donated Goods, Services, and Property

Donated goods, services, and property recorded as in-kind donations are as follows:

	2022	2021
Donated goods resold in ReStores	\$ 3,781,111	\$ 4,224,804
Donated land held in trust and below-market rent	1,059,612	85,000
Volunteer labor and services	638,849	533,262
Goods used in operations	122,465	103,230
Total	<u>\$ 5,602,037</u>	<u>\$ 4,946,296</u>

Donated Goods Resold in ReStores

Consistent with the Habitat International *Affiliate Operations Manual*, goods donated to the ReStores are reflected as revenue at the sale price at the time of sale when there is an objective, measurable basis for determining fair value. This accounting reflects the nature of many donations received by the ReStores wherein significant uncertainties exist about the realizability of the values; thus, fair value is not determinable within reasonable limits until the time of sale.

Donated Land Held in Trust and Below-market Rent

Donated land is composed of contributed land, as well as land leased to Habitat at below-market rates. Contributed land is valued using appraisals performed by qualified professionals. Donated land recorded during the years ended June 30, 2022 and 2021 was \$395,112 and \$85,000, respectively. As described further in Note 19, Habitat entered into a 99-year land lease during the year ended June 30, 2022 for a payment of \$20,500. The fair market value of this land was determined to be approximately \$685,000 based on a present value calculation of future ground lease income. As a result, a contribution of \$664,500 was recorded, which is included in donated goods, services, and property on the consolidated statement of activities and changes in net assets at June 30, 2022. The amount of contributed rent over the remaining lease term is reported as an other asset on the consolidated statement of financial position, and the related rent expense is recorded straight-line over the life of the lease. There was no contribution of below-market real estate during the year ended June 30, 2021. All contributed land and land leased at below-market rental rates are used in program services.

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

Note 17 - Donated Goods, Services, and Property (Continued)

Volunteer Labor and Services

In 2022 and 2021, Habitat estimated the cost of volunteer labor to be approximately \$24,000 and \$23,000, respectively, for a single-family home and \$2,300 and \$2,200, respectively, for a unit for a renovation or repurchase. This value is determined based on average hours incurred multiplied by the market rate of the estimated average cost of the specified services performed. Approximately \$7,500 was recorded for donated materials and electrical services on each new home during 2022 and 2021, which is based on market values for comparable services.

These volunteer costs are recognized as contribution revenue and cost of homes sold in the consolidated statement of activities and changes in net assets when the home is sold. Materially all volunteer labor and services are used in program services.

Goods Used in Operations

Goods used in operations are primarily composed of office supplies and other equipment valued using estimated market value of the corresponding items. Amounts included in this category are used in both program and general and administrative functions.

Note 18 - Membership Substitution Agreement - Colorado Community Land Trust-Denver, LLC

On July 30, 2020, Habitat entered into a membership substitution agreement with Lowry Community Land Trust. Under the terms of the agreement, Lowry Community Land Trust assigned its 99 percent membership interest in CCLT-Denver to Habitat. The remaining assets and liabilities of Lowry Community Land Trust will be used to settle the remaining liabilities and the final dissolution of its operations. Lowry Community Land Trust was dissolved on November 19, 2021, and the remaining assets, which included cash of \$244,725, were transferred to Habitat.

No material consideration was transferred in this transaction. As such, an inherent contribution for the fair value of the excess of assets acquired over liabilities assumed was recorded in the amount of \$5,455,086 on July 31, 2020. Management determined the fair value of the inherent contribution based on information available at the date of the transaction. The fair value of the noncontrolling interest in CCLT-Denver is not considered significant to the consolidated financial statements of Habitat and has, therefore, not been recorded. The transaction was accounted for under the acquisition method due to the change in control of CCLT.

The following table summarizes the fair value of CCLT-Denver as of the date of the membership substitution agreement, which has been recorded as an inherent contribution on the consolidated statement of activities and changes in net assets of Habitat:

Cash	\$	34,136
Land held in trust		5,448,127
Accounts payable		(21,327)
Unearned lease revenue		(5,850)
Total	\$	<u>5,455,086</u>

Note 19 - Leases

Habitat is obligated under operating leases for two current ReStore buildings, one future ReStore building, one production warehouse, and two office buildings, expiring at various dates between December 2023 and September 2032. The leases require escalating monthly payments ranging from approximately \$2,211 to \$29,675.

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

Note 19 - Leases (Continued)

Habitat additionally entered into a 75-year ground lease during 2018. The lease was amended during 2020 to a term of 99 years from the original lease date. As amended, the lease expires in 2119. The lease required a payment of \$300,000 at lease commencement. During the year ended June 30, 2022, Habitat entered into a 99-year ground lease, with an optional renewal term of 99-years that required a payment of \$20,500 at lease commencement. As discussed in Note 17, this lease payment was determined to be at a below-market rate due to the lessor being a charitable organization pursuing affordable housing goals. The difference between the payment and estimated fair value at lease commencement has been recorded as prepaid land lease expense within other assets on the consolidated statement of financial position. Both leases were entered into by Habitat with the intent to redevelop low-income housing on the associated property. The lease payments have been recorded as a prepaid land lease expense in other assets on the consolidated statement of financial position and are being amortized over the term of the leases.

Habitat has also entered into noncancelable operating lease agreements for vehicles. The lease agreements have monthly payments ranging from approximately \$1,100 to \$1,700, which include maintenance charges, and expire at various times from October 2022 to February 2026.

Habitat has also entered into noncancelable operating lease agreement for certain office equipment. The lease agreement has a monthly payment of \$2,686, which includes certain maintenance charges, and expires in June 2024.

Total lease expense under these leases was approximately \$930,000 and \$830,000 for 2022 and 2021, respectively.

Approximate future minimum annual commitments under these operating leases are as follows:

Years Ending June 30	Amount
2023	\$ 1,131,000
2024	1,173,000
2025	1,144,000
2026	1,159,000
2027	802,000
Thereafter	3,087,000
Total	<u>\$ 8,496,000</u>

Note 20 - Transactions with Habitat International and Habitat for Humanity of Colorado

Habitat voluntarily remits a portion of its contributions to Habitat International on an annual basis. These funds are used to construct homes in economically depressed areas around the world. For the years ended June 30, 2022 and 2021, Habitat contributed \$1,007,000 and \$300,000, respectively, to Habitat International. This amount is included in program services in the consolidated statement of activities and changes in net assets.

Habitat is a subrecipient of certain government grants received directly by Habitat International and Habitat for Humanity of Colorado.

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

Note 21 - Retirement Plans

Habitat maintains a tax-deferred annuity plan (the "Plan") qualified under IRC Section 401(k). The Plan covers all employees of Habitat. Habitat provides employees the opportunity to contribute a portion of their gross salaries to the Plan, up to the maximum amount established by the Plan. The Plan includes a safe harbor match of each participant's elective deferrals, not exceeding 3 percent of the participant's compensation, plus 50 percent of the participant's elective deferrals in excess of 3 percent but not in excess of 5 percent of the participant's compensation. Contributions to the Plan totaled \$174,646 and \$168,450 for the years ended June 30, 2022 and 2021, respectively.

Note 22 - Commitments and Contingencies

Guarantee Agreements

Habitat has entered into various grant agreements to receive funds for construction development costs. The grant arrangements require individuals who purchase homes funded by these grant moneys to sign a promissory note payable to the grantor agency for a specified amount. The promissory note must be repaid to the grantor in the event of a sale, transfer, or other disposition of the home within a specified period of time. The promissory note is forgiven if a sale, transfer, or other disposition of the home does not occur within the time specified in the grant agreement.

Habitat has guaranteed these homeowners' promissory notes to the grantor agencies. Should Habitat need to foreclose on a home, it will pay the homeowner's promissory note from the proceeds arising from the resale of the home.

Grant Awards

Financial awards from federal, state, and local governmental entities in the form of grants are subject to special audits. Such audits could result in claims against Habitat for disallowed costs or noncompliance with grantor restrictions. No provision has been made for any liabilities that may arise from such audits, as Habitat management believes that the use of funds complies with the stipulated restrictions.

Claims and Litigation

Habitat is subject to litigation from time to time. When necessary, to the extent not covered by insurance, Habitat will establish a reserve for loss contingencies that are considered probable and reasonably estimable.