Habitat for Humanity of Metro Denver, Inc.

Consolidated Financial Report

June 30, 2021

Contents

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Independent Auditor's Report

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

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, 2021 and 2020 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.

Management's Responsibility 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 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, 2021 and 2020 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.

Plante & Moran, PLLC

September 27, 2021

Consolidated Statement of Financial Position

June 30, 2021 and 2020

	2021	2020
Assets		
Cash and cash equivalents	$ 6,432,149	$ 5,747,975
Investments held by The Denver Foundation	5,814,947	2,594,333
Mortgage notes receivable - Net	20,003,614	20,364,345
Construction in progress	10,376,964	12,172,307
Land held in trust	5,533,127	-
Investment in HFHI NMTC Leveraged Lender 2016-1, LLC	2,918,407	2,918,429
Other assets	1,529,925	1,118,824
Grants receivable	241,077	651,990
Escrow deposits held in trust	323,621	447,458
Property and equipment - Net	4,121,813	4,215,465
Total assets	**$ 57,295,644**	**$ 50,231,126**
Liabilities and Net Assets		
Liabilities		
Accounts payable	$ 505,272	$ 300,369
Line of credit	-	1,007,441
Note payable - PPP loan	-	1,380,000
Deferred rent	38,726	62,167
Homeowner deposits	140,364	123,825
Other accrued expenses	545,241	379,518
Escrow deposits held in trust	323,621	447,458
Notes payable	6,271,755	6,534,042
Forgivable notes payable	2,650,800	2,976,400
Notes payable HFHI	283,611	344,802
Note payable HFHI NMTC SUB-CDE II, LLC	4,202,106	4,162,747
Total liabilities	14,961,496	17,718,769
Net Assets		
Without donor restrictions:		
Undesignated	32,628,089	27,300,623
Undesignated - Land held in trust	5,533,127	-
Board-designated for land and infrastructure	2,000,000	2,000,000
Total net assets without donor restrictions	40,161,216	29,300,623
With donor restrictions	2,172,932	3,211,734
Total net assets	42,334,148	32,512,357
Total liabilities and net assets	**$ 57,295,644**	**$ 50,231,126**

Consolidated Statement of Activities and Changes in Net Assets

Years Ended June 30, 2021 and 2020

	2021			2020		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, Gains, and Other Support						
Contributions and grants	$ 3,527,472	$ 2,168,736	$ 5,696,208	$ 3,548,911	$ 2,487,551	$ 6,036,462
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	-	-	-
Donated goods, services, and property	721,492	-	721,492	1,917,271	-	1,917,271
Home sales	9,379,227	-	9,379,227	10,129,457	-	10,129,457
Mortgage interest income	373,776	-	373,776	783,477	-	783,477
Rental income	214,194	-	214,194	53,188	-	53,188
Ground lease income	207,645	-	207,645	-	-	-
Other income	724,268	-	724,268	598,552	-	598,552
Sales from ReStores - Net:						
Sales from ReStores	6,292,980	-	6,292,980	5,381,812	-	5,381,812
Cost of purchased inventory and refunds	(1,008,351)	-	(1,008,351)	(711,511)	-	(711,511)
Sales from ReStores - Net	5,284,629	-	5,284,629	4,670,301	-	4,670,301
Net assets released from restrictions	3,207,538	(3,207,538)	-	2,304,312	(2,304,312)	-
Total revenue, gains, and other support	30,800,927	(1,038,802)	29,762,125	24,005,469	183,239	24,188,708
Expenses						
Program services:						
Home construction	12,831,695	-	12,831,695	15,940,370	-	15,940,370
Family and mortgage services	1,729,933	-	1,729,933	1,797,634	-	1,797,634
ReStores	3,812,018	-	3,812,018	4,309,826	-	4,309,826
Total program services	18,373,646	-	18,373,646	22,047,830	-	22,047,830
Support services:						
Management and general	1,271,349	-	1,271,349	1,548,645	-	1,548,645
Fundraising activities	1,245,298	-	1,245,298	1,295,426	-	1,295,426
Total support services	2,516,647	-	2,516,647	2,844,071	-	2,844,071
Total expenses	20,890,293	-	20,890,293	24,891,901	-	24,891,901
Change in Net Assets - Before other income	9,910,634	(1,038,802)	8,871,832	(886,432)	183,239	(703,193)
Other Income - Investment return - Net	949,959	-	949,959	6,448	-	6,448
Change in Net Assets	10,860,593	(1,038,802)	9,821,791	(879,984)	183,239	(696,745)
Net Assets - Beginning of year	29,300,623	3,211,734	32,512,357	30,180,607	3,028,495	33,209,102
Net Assets - End of year	**$ 40,161,216**	**$ 2,172,932**	**$ 42,334,148**	**$ 29,300,623**	**$ 3,211,734**	**$ 32,512,357**

See notes to consolidated financial statements.

Consolidated Statement of Functional Expenses

Year Ended June 30, 2021

	Program Services				Support Services			
	Home Construction	Family and Mortgage Services	ReStores	Total Program Services	Management and General	Fundraising Activities	Total Support Services	Total
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

See notes to consolidated financial statements.

Consolidated Statement of Functional Expenses

Year Ended June 30, 2020

	Program Services				Support Services			
	Home Construction	Family and Mortgage Services	ReStores	Total Program Services	Management and General	Fundraising Activities	Total Support Services	Total
Cost of homes sold	$ 10,781,485	$ -	$ -	$ 10,781,485	$ -	$ -	$ -	$ 10,781,485
Salaries and wages	1,947,200	1,084,922	2,253,293	5,285,415	670,991	728,845	1,399,836	6,685,251
Volunteer labor on homes	1,467,783	-	-	1,467,783	-	-	-	1,467,783
Occupancy	248,961	18,317	560,485	827,763	25,948	16,282	42,230	869,993
Payroll taxes and benefits	415,062	175,288	463,723	1,054,073	94,196	134,320	228,516	1,282,589
Habitat for Humanity International tithe	287,050	1,800	1,450	290,300	1,464	-	1,464	291,764
Depreciation and amortization	125,216	8,189	166,438	299,843	19,142	7,279	26,421	326,264
Professional fees	12,320	147,165	17,356	176,841	307,387	16,172	323,559	500,400
Bank fees	-	3,756	115,799	119,555	695	178	873	120,428
Insurance	83,901	32,155	140,036	256,092	41,794	28,089	69,883	325,975
Other construction costs	51,151	148,193	189,021	388,365	2,017	-	2,017	390,382
Marketing and communications	-	-	29,625	29,625	-	301,755	301,755	331,380
Office supplies	40,891	49,989	115,176	206,056	88,005	13,098	101,103	307,159
Vehicle costs	60,609	104	157,430	218,143	1,577	-	1,577	219,720
Interest	22,374	8,390	-	30,764	81,790	7,458	89,248	120,012
Volunteer costs	179,832	20,779	951	201,562	328	777	1,105	202,667
Telephone	33,205	11,615	40,793	85,613	8,420	7,322	15,742	101,355
Printing and postage	9,095	5,908	19,134	34,137	13,431	13,165	26,596	60,733
Miscellaneous	41,343	27,329	4,198	72,870	8,098	350	8,448	81,318
Donated goods and services	36,746	35,261	-	72,007	42,651	1,994	44,645	116,652
Administrative fees	19,250	431	240	19,921	92,585	530	93,115	113,036
Equipment purchase and repair	40,825	-	13,079	53,904	92	-	92	53,996
Staff development	25,865	12,226	12,442	50,533	33,716	13,929	47,645	98,178
Travel and transportation	10,206	5,817	9,157	25,180	14,318	3,883	18,201	43,381
	15,940,370	1,797,634	4,309,826	22,047,830	1,548,645	1,295,426	2,844,071	24,891,901
ReStore cost of purchased inventory netted against revenue	-	-	711,511	711,511	-	-	-	711,511
Total functional expenses	**$ 15,940,370**	**$ 1,797,634**	**$ 5,021,337**	**$ 22,759,341**	**$ 1,548,645**	**$ 1,295,426**	**$ 2,844,071**	**$ 25,603,412**

Consolidated Statement of Cash Flows

Years Ended June 30, 2021 and 2020

	2021	2020
Cash Flows from Operating Activities		
Change in net assets	$ 9,821,791	$ (696,745)
Adjustments to reconcile change in net assets to net cash and cash equivalents from operating activities:		
Mortgages made to homeowners	(8,604,808)	(10,324,013)
Amortization of mortgage loan discounts	(333,348)	(622,508)
Depreciation and amortization expense	317,898	326,264
Amortization of New Market Tax Credit loan costs	39,359	39,357
Gain on sale of assets	(1,000)	-
Deferred rent	(23,441)	(34,250)
Investment return on investments held by The Denver Foundation	(976,212)	(11,936)
Forgiveness of notes payable	(1,705,600)	-
Gain on sale of mortgage notes receivable	(142,474)	(62,268)
Contribution of Colorado Community Land Trust-Denver, LLC - Net of cash received	(5,420,950)	-
Donated land	(85,000)	-
Changes in operating assets and liabilities that provided (used) cash and cash equivalents:		
Grants receivable	410,913	(332,247)
Construction in progress	1,795,343	629,939
Other assets	(411,101)	(177,251)
Change in New Market Tax Credit investment - Net	22	(14,234)
Accounts payable	183,576	(274,146)
Other accrued expenses	159,873	(246,573)
Homeowner deposits	16,539	18,578
Net cash and cash equivalents used in operating activities	(4,958,620)	(11,782,033)
Cash Flows from Investing Activities		
Mortgage principal and related amounts received	1,673,268	1,056,232
Proceeds from sale of mortgages	7,768,093	5,705,345
Distributions for fees paid to The Denver Foundation	55,598	49,056
Payments for purchase of property and equipment	(224,246)	(599,665)
Distributions from investments held by The Denver Foundation	-	1,250,000
Purchases of investments held by The Denver Foundation	(2,300,000)	-
Proceeds from sale of property and equipment	1,000	-
Net cash and cash equivalents provided by investing activities	6,973,713	7,460,968
Cash Flows from Financing Activities		
Proceeds from line of credit	-	1,007,441
Payments on line of credit	(1,007,441)	-
Proceeds from note payable - PPP loan	-	1,380,000
Repayments of mortgage note payable	-	(1,072,389)
Proceeds from notes payable	-	3,157,776
Repayments of notes payable	(262,287)	(229,659)
Proceeds of notes payable HFHI	14,285	40,468
Repayments of notes payable HFHI	(75,476)	(48,984)
Proceeds from forgivable note payable	-	762,299
Net cash and cash equivalents (used in) provided by financing activities	(1,330,919)	4,996,952
Net Increase in Cash and Cash Equivalents	684,174	675,887
Cash and Cash Equivalents - Beginning of year	5,747,975	5,072,088
Cash and Cash Equivalents - End of year	**$ 6,432,149**	**$ 5,747,975**
Supplemental Cash Flow Information - Cash paid for interest	$ 66,894	$ 80,655

See notes to consolidated financial statements.

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 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) was formed in 2014 as part of a partnership with the Denver Housing Authority. Initially, CCLT 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 expanded its service area and now has a total portfolio of 217 homes located throughout Lowry, Speer, Cole, and Swansea neighborhoods within the City and County of Denver. CCLT'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 3, 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 prior to the execution of the member substitution agreement. Effective with this agreement, Habitat assumed 99 percent of the membership interest in CCLT. The Denver Housing Authority remains as the owner of 1 percent of the membership interest of CCLT. Under the agreement, Lowry Community Land Trust's operations are to be wound down and all remaining assets and liabilities transferred to Habitat. This wind down is in progress as of the date of the consolidated statement of financial position.

CCLT is a 501(c)(3) limited liability company. As the Denver Housing Authority owns 1 percent of CCLT, the land held by CCLT 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 (HFCI) 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 HFCI.

Note 2 - Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of Habitat, AMS, CCLT, 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.

Note 2 - Significant Accounting Policies (Continued)

Adoption of New Accounting Pronouncement

On July 1, 2020, Habitat adopted the provisions of Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which supersedes 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. Habitat elected to apply the new revenue recognition guidance using the modified retrospective approach.

Under the modified retrospective method, the cumulative effect of applying the standard is recognized at the date of initial application. Results for reporting periods beginning on July 1, 2020 are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with historic accounting under Topic 605. The adoption of the new standard did not have a material effect on the consolidated financial statements.

In implementing Topic 606, Habitat was required to determine the revenue earned on any contracts in progress at the implementation date and to restate the revenue and cost of services as if Topic 606 had been followed from the inception of the contract. In recalculating costs and revenue under Topic 606 guidelines, Habitat did not identify a material difference in the timing or amount of recognition, and, therefore, no cumulative transition adjustment has been posted.

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.

In accordance with U.S. GAAP, a noncontrolling interest in HFHI NMTC SUB-CDE II, LLC (see Note 9) is accounted for under the equity method of accounting. The noncontrolling interest related to CCLT is not considered significant to the consolidated financial statements.

Habitat evaluates these investments annually for other-than-temporary declines in value. No impairment losses were recognized for 2021 and 2020.

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, investments held by the Foundation, and mortgage notes receivable. Interest-bearing and non-interest-bearing accounts are guaranteed by the FDIC up to $250,000. At June 30, 2021, Habitat had deposits in excess of federally insured limits of approximately $6,700,000. Habitat reduces credit risk by placing its cash and temporary investments with creditworthy, high-quality financial institutions.

Note 2 - Significant Accounting Policies (Continued)

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 by charging below-market interest and setting 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. 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. However, the values of homes that collateralize the mortgage notes receivable are subject to market value fluctuations beyond the control of management.

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.

Construction in Progress

<u>Homes Under Construction</u>

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, 2021 and 2020, no reserve was considered necessary.

<u>Property Held for Sale or Future Development</u>

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. The land held in trust is recorded at its fair value at the date of the member substitution agreement (see Note 3), 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 in 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.

Note 2 - Significant Accounting Policies (Continued)

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.

Deferred Finance Charges

During 2018, 2012, and 2011, Habitat capitalized the costs associated with obtaining the New Markets Tax Credit (NMTC) loans. These deferred loan costs are being amortized over the life of the related notes 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, 2021 and 2020 was $39,359 and $39,357, respectively. The unamortized balance at June 30, 2021 and 2020 was netted against the corresponding NMTC notes payable (see Note 9).

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.

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.

Note 2 - Significant Accounting Policies (Continued)

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.

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.

Donated Goods and Services

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.

In 2021, Habitat estimated the cost of volunteer labor to be approximately $23,000 for a single-family home and $2,200 for a unit for a renovation or repurchase. 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.

Approximately $7,500 was recorded for donated materials and electrical services on each new home during 2021 and 2020.

Donated property utilized in the operations of Habitat is recorded at the estimated fair value at the date of the donation.

Consistent with the Habitat International *Affiliate Operations Manual*, goods donated to the ReStores are reflected as revenue 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.

Revenue Recognition - 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, 2021 and 2020, Habitat recognized home sale revenue of $9,379,227 and $10,129,457, 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 in to 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 2021 and 2020, these fees were $97,439 and $44,356, respectively, which 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 7.

Note 2 - Significant Accounting Policies (Continued)

There are no contract assets associated with these contracts recorded as of June 30, 2021 or at the beginning of the year ended June 30, 2021. Homeowner deposits (contract liabilities) is composed of down payments and fees made in advance of a homeowner gaining control of a completed home. Homeowner deposits as of June 30, 2021 and 2020 were $140,364 and $123,825, respectively.

Revenue Recognition - ReStores Sales

Habitat generates revenue through transactions with customers at its four ReStore locations in the metro Denver area. For the years ended June 30, 2021 and 2020, Habitat recognized ReStore sales of $6,292,980 and $5,381,812, respectively.

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 required 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 programs and support services based on estimates, as 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 is a not-for-profit limited liability company and is exempt from tax under the provisions of Internal Revenue Code Section 501(c)(3). HFCI and AMS are disregarded entities for tax purposes and are, therefore, included in the tax reporting of Habitat.

Note 2 - Significant Accounting Policies (Continued)

Upcoming Accounting Pronouncements

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 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 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 17, 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.

In September 2020, the FASB issued ASU No. 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which provides clearer financial information about important noncash contributions charities and other not-for-profit organizations receive known as gifts-in-kind (GIKs). The standard provides new presentation and disclosure requirements about contributed nonfinancial assets for nonprofits, including additional disclosure rules for recognized contributed services. The new guidance will be effective for Habitat's year ending June 30, 2022 and will be applied using the retrospective method. The amendments will not change the recognition and measurement requirements for those assets.

Reclassifications

Certain 2020 amounts related to classification of investment management fees and gains on sales of property and equipment have been reclassified to conform to the 2021 presentation on the consolidated statement of activities and changes in net assets.

Subsequent Events

The consolidated financial statements and related disclosures include evaluation of events up through and including September 27, 2021, which is the date the consolidated financial statements were available to be issued.

Note 3 - 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 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. Any remaining assets and liabilities of Lowry Community Land Trust will be transferred to Habitat at the conclusion of the wind down.

Note 3 - Membership Substitution Agreement - Colorado Community Land Trust-Denver, LLC (Continued)

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 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 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	$ 5,455,086

Note 4 - Liquidity and Availability of Resources

The following reflects Habitat's financial assets as of June 30, 2021 and 2020, 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:

	2021	2020
Cash and cash equivalents	$ 6,432,149	$ 5,747,975
Investments held by The Denver Foundation	5,814,947	2,594,333
Grants receivable	241,077	651,990
Mortgage notes receivable - Available for sale and balances collectible within one year	10,210,849	10,025,001
Donor-imposed restrictions	(2,172,932)	(3,211,734)
Board-advised funds	(2,000,000)	(2,000,000)
Financial assets available to meet cash needs for general expenditures within one year	$ 18,526,090	$ 13,807,565

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 $5,000,000 at June 30, 2021, which it could draw upon if needed, as further described in Note 11.

Note 4 - Liquidity and Availability of Resources (Continued)

During the years ended June 30, 2021 and 2020, the level of liquidity and reserves was managed within the policy requirements.

Note 5 - Investments Held by The Denver Foundation

Invested funds at The Denver 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.

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

	2021	2020
Ordinary income	$ 74,393	$ 44,928
Realized gains	46,470	24,965
Unrealized gain (loss)	855,349	(57,957)
Investment management fees	(55,598)	(49,056)
Investment return - Net	$ 920,614	$ (37,120)

Note 6 - 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. The 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.

Note 6 - Fair Value Measurements (Continued)

Changes in Level 3 assets measured at fair value on a recurring basis for the years ended June 30, 2021 and 2020 are as follows:

	2021	2020
Beginning balance	$ 2,594,333	$ 3,881,453
Investment return - Net	976,212	11,936
Contributions	2,300,000	-
Distributions	-	(1,250,000)
Distributions for fees paid to the Foundation	(55,598)	(49,056)
Ending balance	$ 5,814,947	$ 2,594,333

Note 7 - 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 1.9 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 is reinvested in Habitat. Gains on the sale of mortgage notes receivable is 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:

	2021	2020
Held to maturity - Net	$ 10,791,245	$ 11,074,824
Available for sale	9,212,369	9,289,521
Total	$ 20,003,614	$ 20,364,345

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

	2021	2020
Face value of outstanding held to maturity mortgage notes receivable	$ 15,278,814	$ 15,936,167
Less discount	(4,487,569)	(4,861,343)
Total	$ 10,791,245	$ 11,074,824

Approximately $1,000,000 will be due in the year ending June 30, 2022 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.

Note 7 - Mortgage Notes Receivable (Continued)

Loans Sold to a Colorado Governmental Agency

Under an agreement entered into in June 2019, AMS has the option to sell up to $3,000,000 in mortgages to a Colorado Governmental Agency (CGA). During the year ended June 30, 2021, AMS sold its interest in certain mortgages receivable under this agreement, receiving $1,199,541 in cash proceeds. These transactions were recorded as sales. Approximately $550,000 remains outstanding under this agreement as of June 30, 2021.

During the year ended June 30, 2020, AMS entered into certain agreements to sell its interest in certain mortgages receivable, receiving $2,723,159 in cash proceeds related to sales under these agreements. These transactions were recorded as sales.

In 2020, Habitat transferred its interest in certain mortgages receivable to the CGA in replacement of nonperforming mortgages. Nonperforming mortgages were retained by Habitat, and the unamortized discount on these mortgages was restored and netted with mortgage interest income in the accompanying consolidated statement of activities and changes in net assets.

The current and previous years' sales agreement with 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 is 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, 2021 and 2020, the outstanding principal balance of loans held by CGA that are guaranteed by Habitat and AMS was approximately $9,690,000 and $8,770,000, respectively. There were repurchases of $7,077 and $204,630 during the years ended June 30, 2021 and 2020, respectively.

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; substitute with a performing loan of equitable terms, balance, and property; or substitute the mortgagor. 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.

Note 7 - 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, 2021 and 2020:

			Outstanding Principal Balance of Loans Guaranteed as of June 30	
Bank Acquiring Mortgage Loan	Fiscal Year of Sale	Habitat Proceeds Received	2021	2020
Bank F	2021	$ 2,032,150	$ 2,027,622	$ -
Bank B	2021	4,478,006	4,424,464	-
Bank B	2020	3,315,847	3,818,214	3,394,316
Bank E	2019	1,929,688	1,723,955	1,812,988
Bank E	2019	1,296,821	1,161,948	1,181,243
Bank B	2019	3,299,168	3,268,353	3,897,507
Bank B	2019	3,351,866	3,543,349	3,728,732
Bank C	2018	1,246,478	1,102,701	1,257,993
Bank C	2017	1,717,024	1,452,688	1,581,545
Bank B	2016	4,718,966	3,409,885	3,751,238
Bank B	2015	5,614,408	4,368,350	4,866,291
Bank A	2014	1,032,467	921,156	1,085,046
Bank A	2013	1,991,754	1,441,158	1,568,046

As part of an agreement to sell mortgage receivables to Bank B for $3,315,847 during the year ended June 30, 2020, Habitat repurchased four mortgages receivable for $333,660 (in lieu of substitutions) in order to satisfy conditions of the purchase agreement.

Loans Transferred to a Bank

In September 2019 and 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 a note payable agreement and receiving cash proceeds related to the transaction. For the transaction entered into in September 2019, the note payable is collateralized by the first 30 years of payments on the underlying mortgages. The first 30 years of mortgage payments approximates the proceeds received of $2,915,933 on the September 2019 transaction. These transactions were recorded as loans. Habitat continues to service these mortgages. See Note 13 for notes payable to Bank D.

The following summarizes Habitat loans transferred a bank:

			Outstanding Principal Balance of Mortgage Collateralized as of June 30	
Bank Acquiring Transferred Loan	Fiscal Year of Sale	Habitat Proceeds Received	2021	2020
Bank D*	2020	$ 2,915,933	$ 3,021,133	$ 3,232,469
Bank D	2018	2,997,488	2,537,620	2,665,926
Bank D	2014	1,032,467	722,915	770,618

*The outstanding principal balance as of June 30, 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 8 - Construction in Progress

Construction in progress consists of undeveloped land and infrastructure costs, as well as partially completed single-family and multifamily dwellings. At June 30, 2021 and 2020, 100 and 113 units, respectively, were under development beyond the land purchase phase. Included in the units under development are 57 and 68 home repair projects at June 30, 2021 and 2020, respectively.

Habitat's construction in progress is composed of the following:

	2021	2020
Construction in progress	$ 4,904,288	$ 6,064,774
Land under development	2,034,376	2,742,925
Home repairs and renovation units	3,438,300	3,364,608
Total	$ 10,376,964	$ 12,172,307

There were no transfers to property and equipment during the years ended June 30, 2021 and 2020.

Note 9 - 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 Leverage 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. During the years ended June 30, 2021 and 2020, the change in Habitat's investment balance was $(22) and $14,234, respectively, 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:

	2021	2020
Total assets	$ 21,490,480	$ 21,169,816
Total revenue	216,090	216,019
Net income	216,090	216,019

In exchange for the investment and promissory note, Habitat received a net cash inflow of approximately $1,057,000, net of transaction expenses, which can be 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, 2021 and 2020, 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, 2021 and 2020 of $149,563 and $188,922, 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, 2021 and 2020.

Note 10 - Property and Equipment

Property and equipment are summarized as follows:

	2021	2020
Buildings and improvements	$ 2,537,747	$ 4,342,083
Leasehold improvements	726,525	726,525
Rental units	1,071,001	1,071,001
Vehicles	454,552	387,267
Furniture and fixtures	140,904	140,904
Office equipment	173,618	128,507
Construction equipment	82,806	82,806
Buildings and improvements - Held for sale	944,078	-
Total cost	6,131,231	6,879,093
Accumulated depreciation	2,009,418	2,663,628
Property and equipment - Net	$ 4,121,813	$ 4,215,465

Depreciation and amortization expense related to property and equipment for 2021 and 2020 was $317,898 and $326,264, 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. The transaction is expected to close in 2021. 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. No impairment loss has been recognized in relation to this transaction.

Note 11 - 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 $5,000,000 under these agreements.

Under the agreement for $2,000,000 entered into on December 13, 2020, borrowings are subject to rates based on *The Wall Street Journal* prime rate minus 0.25 percent, with a floor of 3.00 percent (3.00 percent as of June 30, 2021). Interest is payable monthly with the outstanding balance due at maturity on December 13, 2021. At June 30, 2021 and 2020, 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 $5,000,000. Borrowings are subject to rates based on *The Wall Street Journal* prime rate plus 0.75 percent, with a floor of 4.00 percent (4.00 percent as of June 30, 2021 and 2020). Interest is payable monthly with the outstanding balance due at maturity on June 30, 2023. There were no outstanding borrowings at June 30, 2021. At June 30, 2020, borrowings of $1,036,423 were outstanding. Deferred debt issuance costs of $28,982 were netted against the outstanding balance of the line of credit as of June 30, 2020.

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.

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 was used to maintain workforce and fund certain other allowable expenses under the terms of the program. Prior to 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 - Notes Payable

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

	2021	2020
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 7)	$ 2,760,950	$ 2,850,677
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 7)	2,536,280	2,662,064
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 7)	724,525	771,301
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	$ 6,271,755	$ 6,534,042

The balance of the above debt matures as follows:

Years Ending June 30	Amount
2022	$ 278,601
2023	270,444
2024	270,444
2025	270,444
2026	270,444
Thereafter	4,911,378
Total	$ 6,271,755

Note 14 - Notes Payable to HFHI

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

	2021	2020
Unsecured, non-interest-bearing notes payable to Habitat International; payable in monthly installments ranging from $321 to $1,742; maturing between January 2022 and January 2026	$ 283,611	$ 344,802

Principal payments under the above agreement are as follows:

Years Ending June 30	Amount
2022	$ 82,692
2023	87,301
2024	67,218
2025	35,241
2026	11,159
Total	$ 283,611

Note 15 - 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 finds 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, 2021 and 2020, 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, 2020.

As of June 30, 2021 and 2020, Habitat had $2,650,800 and $2,976,400, respectively, of notes outstanding to the City and County of Denver, Colorado.

Note 16 - Net Assets

Net Assets without Donor Restrictions - Board Designated

The board has designated $2,000,000 of unrestricted net assets at June 30, 2021 and 2020 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, 2021 and 2020.

Note 17 - Leases

Habitat is obligated under operating leases for three ReStore buildings and one production warehouse, expiring at various dates between July 2021 and December 2026. The leases require escalating monthly payments ranging from approximately $11,111 to $24,734.

Note 17 - Leases (Continued)

Habitat additionally entered into a 75-year ground lease during 2018 for certain property in order to build low-income housing on the property. The required a payment of $300,000 at lease commencement. This payment has been recorded as a prepaid expense in other assets on the consolidated statement of financial position and is being amortized over the term of the lease.

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 August 2020 to December 2024.

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 $878,506 and $772,979 for 2021 and 2020, respectively.

Future minimum annual commitments, including estimated maintenance charges, under these operating leases are approximately as follows:

Years Ending June 30	Amount
2022	$ 733,000
2023	529,000
2024	509,000
2025	490,000
2026	495,000
Thereafter	125,000
Total	$ 2,881,000

Note 18 - 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, 2021 and 2020, Habitat contributed $300,000 and $291,764, 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.

Note 19 - 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 $168,450 and $191,862 for the years ended June 30, 2021 and 2020, respectively.

Note 20 - 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. Habitat has determined that there are no material claims outstanding as of June 30, 2021 and 2020. When necessary, to the extent not covered by insurance, Habitat will establish a reserve for loss contingencies that are considered probable and reasonably estimable.

Note 21 - Risks and Uncertainties Due to 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.

Due to the coronavirus pandemic, Habitat experienced a significant impact on its operations. As a result of these impacts, Habitat implemented a plan aimed at reducing total expenditures and cash flow losses. Significant aspects of this plan include staff reductions of approximately 21 percent through attrition, furloughs and layoffs, salary reductions for the executive staff, and freezes on nonessential spending. This plan was implemented during the year ended June 30, 2020. As of June 30, 2021, activity levels have substantially returned to pre-pandemic volumes. Management believes the impact of the pandemic on the activities to have been temporary.

Management has assessed the impact the pandemic has had on operations during the period from July 1, 2020 to June 30, 2021 and through the date of issuance of the consolidated financial statements. No impairments were recorded as of the consolidated statement of financial position date; however, due to significant uncertainty surrounding the situation, management's judgment regarding this could change in the future. In addition, while Habitat's consolidated statements of activities and changes in net assets, cash flows, and financial position could be negatively impacted by the pandemic in the future, the extent of any potential impact cannot be reasonably estimated at this time.