Habitat for Humanity of Metro Denver, Inc.

Consolidated Financial Report

June 30, 2020

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, 2020 and 2019 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, 2020 and 2019 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.

Emphasis of Matter

As described in Note 20 to the consolidated financial statements, on March 11, 2020, the World Health Organization declared the outbreak of COVID-19 a pandemic, which has had a significant impact on the Organization. Our opinion is not modified with respect to this matter.

Plante & Moran, PLLC

November 6, 2020

Consolidated Statement of Financial Position

June 30, 2020 and 2019

	2020	2019
Assets		
Cash and cash equivalents	$ 5,747,975	$ 5,072,088
Investments held by The Denver Foundation	2,594,333	3,881,453
Mortgage notes receivable - Net	20,364,345	16,117,133
Construction in progress	12,172,307	12,802,246
Investment in HFHI NMTC Leveraged Lender 2016-1, LLC	2,918,429	2,904,195
Other assets	1,118,824	941,573
Grants receivable	651,990	319,743
Escrow deposits held in trust	447,458	363,580
Property and equipment - Net	4,215,465	3,942,064
Total assets	**$ 50,231,126**	**$ 46,344,075**
Liabilities and Net Assets		
Liabilities		
Accounts payable	$ 300,369	$ 574,515
Line of credit - Net	1,007,441	-
Note payable - PPP loan	1,380,000	-
Deferred rent	62,167	96,417
Homeowner deposits	123,825	105,247
Other accrued expenses	379,518	626,091
Escrow deposits held in trust	447,458	363,580
Mortgage note payable	-	1,072,389
Notes payable	6,534,042	3,605,925
Forgivable notes payable	2,976,400	2,214,101
Notes payable HFHI	344,802	353,318
Note payable HFHI NMTC SUB-CDE II, LLC	4,162,747	4,123,390
Total liabilities	17,718,769	13,134,973
Net Assets		
Without donor restrictions:		
Undesignated	27,300,623	28,180,607
Board-designated for land and infrastructure	2,000,000	2,000,000
Total without donor restrictions	29,300,623	30,180,607
With donor restrictions	3,211,734	3,028,495
Total net assets	32,512,357	33,209,102
Total liabilities and net assets	**$ 50,231,126**	**$ 46,344,075**

Consolidated Statement of Activities and Changes in Net Assets

Years Ended June 30, 2020 and 2019

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, Gains, and Other Support						
Contributions and grants	$ 3,548,911	$ 2,487,551	$ 6,036,462	$ 2,872,495	$ 2,860,688	$ 5,733,183
Donated goods and services	1,917,271	-	1,917,271	1,902,149	-	1,902,149
Home sales	10,129,457	-	10,129,457	6,476,679	-	6,476,679
Mortgage interest income	783,477	-	783,477	4,387,216	-	4,387,216
Second mortgage revenue	167,578	-	167,578	138,326	-	138,326
Forgiveness of debt	-	-	-	1,056,100	-	1,056,100
Sales from ReStores - Net of cost of purchased inventory and refunds	4,670,301	-	4,670,301	5,898,437	-	5,898,437
Other income	429,474	-	429,474	284,130	-	284,130
Rental income	53,188	-	53,188	66,780	-	66,780
Net assets released from restrictions	2,304,312	(2,304,312)	-	1,739,618	(1,739,618)	-
Total revenue, gains, and other support	24,003,969	183,239	24,187,208	24,821,930	1,121,070	25,943,000
Expenses						
Program services:						
Home construction	15,940,370	-	15,940,370	13,816,574	-	13,816,574
Family and mortgage services	1,797,634	-	1,797,634	1,535,535	-	1,535,535
ReStores	4,309,826	-	4,309,826	4,346,981	-	4,346,981
Total program services	22,047,830	-	22,047,830	19,699,090	-	19,699,090
Support services:						
Management and general	1,597,701	-	1,597,701	1,523,267	-	1,523,267
Fundraising activities	1,295,426	-	1,295,426	1,372,621	-	1,372,621
Total support services	2,893,127	-	2,893,127	2,895,888	-	2,895,888
Total expenses	24,940,957	-	24,940,957	22,594,978	-	22,594,978
Change in Net Assets - Before other income (loss)	(936,988)	183,239	(753,749)	2,226,952	1,121,070	3,348,022
Other Income (Loss)						
Investment income	55,504	-	55,504	204,048	-	204,048
Gain (loss) on sale of asset	1,500	-	1,500	(2,824)	-	(2,824)
Total other income	57,004	-	57,004	201,224	-	201,224
Change in Net Assets	(879,984)	183,239	(696,745)	2,428,176	1,121,070	3,549,246
Net Assets - Beginning of year	30,180,607	3,028,495	33,209,102	27,752,431	1,907,425	29,659,856
Net Assets - End of year	**$ 29,300,623**	**$ 3,211,734**	**$ 32,512,357**	**$ 30,180,607**	**$ 3,028,495**	**$ 33,209,102**

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	49,751	178	49,929	169,484
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	206,626	88,005	13,098	101,103	307,729
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	1,597,701	1,295,426	2,893,127	24,940,957
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**	**$ 1,597,701**	**$ 1,295,426**	**$ 2,893,127**	**$ 25,652,468**

See notes to consolidated financial statements.

Consolidated Statement of Functional Expenses

Year Ended June 30, 2019

	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	$ 9,041,443	$ -	$ -	$ 9,041,443	$ -	$ 121	$ 121	$ 9,041,564
Salaries and wages	1,933,249	930,154	2,521,171	5,384,574	778,991	753,208	1,532,199	6,916,773
Volunteer labor on homes	1,160,560	-	-	1,160,560	-	-	-	1,160,560
Occupancy	235,079	17,107	566,846	819,032	17,342	15,394	32,736	851,768
Payroll taxes and benefits	197,127	83,794	209,368	490,289	105,839	73,443	179,282	669,571
Habitat for Humanity International tithe	255,049	499	-	255,548	-	1,500	1,500	257,048
Depreciation and amortization	116,972	16,753	121,775	255,500	24,664	14,822	39,486	294,986
Professional fees	28,255	97,384	7,009	132,648	200,699	17,849	218,548	351,196
Bank fees	-	3,223	140,312	143,535	61,395	96	61,491	205,026
Insurance	79,122	27,197	137,722	244,041	31,651	25,897	57,548	301,589
Other construction costs	67,786	73,348	190,914	332,048	-	17,789	17,789	349,837
Marketing and communications	-	683	19,723	20,406	1,125	295,836	296,961	317,367
Office supplies	60,054	46,147	115,175	221,376	47,347	19,246	66,593	287,969
Vehicle costs	62,251	41	171,541	233,833	-	108	108	233,941
Interest	96,559	69,338	-	165,897	74,980	9,442	84,422	250,319
Volunteer costs	184,994	13,974	224	199,192	278	68	346	199,538
Telephone	29,844	10,814	40,985	81,643	5,171	7,111	12,282	93,925
Printing and postage	9,337	5,854	31,003	46,194	6,929	16,475	23,404	69,598
Miscellaneous	49,809	28,795	33,343	111,947	8,009	69	8,078	120,025
Donated goods and services	28,446	90,400	-	118,846	36,296	94,668	130,964	249,810
Administrative fees	111,872	1,192	26	113,090	46,507	-	46,507	159,597
Equipment purchase and repair	30,512	-	15,596	46,108	-	-	-	46,108
Staff development	28,623	13,753	9,519	51,895	45,812	5,143	50,955	102,850
Travel and transportation	9,631	5,085	14,729	29,445	30,232	4,336	34,568	64,013
	13,816,574	1,535,535	4,346,981	19,699,090	1,523,267	1,372,621	2,895,888	22,594,978
ReStore cost of purchased inventory netted against revenue	-	-	505,534	505,534	-	-	-	505,534
Total functional expenses	**$ 13,816,574**	**$ 1,535,535**	**$ 4,852,515**	**$ 20,204,624**	**$ 1,523,267**	**$ 1,372,621**	**$ 2,895,888**	**$ 23,100,512**

Consolidated Statement of Cash Flows

Years Ended June 30, 2020 and 2019

	2020	2019
Cash Flows from Operating Activities		
Change in net assets	$ (696,745)	$ 3,549,246
Adjustments to reconcile change in net assets to net cash and cash equivalents from operating activities:		
Mortgages made to homeowners	(10,324,013)	(8,308,109)
Amortization of mortgage loan discounts	(622,508)	(994,527)
Depreciation and amortization expense	326,264	294,986
Amortization of New Market Tax Credit loan costs	39,357	100,438
Loss on sale of assets	-	2,824
Deferred rent	(34,250)	(33,043)
Realized and unrealized gain on investments - Net	(11,936)	(189,526)
Forgiveness of debt	-	(1,056,100)
Gain on sale of mortgage notes receivable	(62,268)	(2,228,476)
Changes in operating assets and liabilities that (used) provided cash and cash equivalents:		
Grants receivable	(332,247)	261,506
Construction in progress	629,939	(3,630,636)
Other assets	(177,251)	7,370
Change in New Market Tax Credit investment - Net	(14,234)	75,987
Accounts payable	(274,146)	162,022
Other accrued expenses	(246,573)	19,389
Homeowner deposits	18,578	39,220
Net cash and cash equivalents used in operating activities	(11,782,033)	(11,927,429)
Cash Flows from Investing Activities		
Mortgage principal and related amounts received	1,056,232	1,416,551
Proceeds from sale of mortgages	5,705,345	9,877,544
Distributions for fees paid to The Denver Foundation	49,056	64,419
Payments for purchase of property and equipment	(599,665)	(254,543)
Distributions from investments held by The Denver Foundation	1,250,000	1,000,000
Net cash and cash equivalents provided by investing activities	7,460,968	12,103,971
Cash Flows from Financing Activities		
Proceeds from line of credit	1,007,441	-
Payments of line of credit	-	(250,000)
Proceeds from note payable - PPP loan	1,380,000	-
Repayments of mortgage note payable	(1,072,389)	(72,015)
Proceeds from notes payable	3,157,776	-
Repayments of notes payable	(229,659)	(172,560)
Proceeds of notes payable HFHI	40,468	96,090
Repayments of notes payable HFHI	(48,984)	(51,216)
Proceeds from forgivable note payable	762,299	1,813,301
Net cash and cash equivalents provided by financing activities	4,996,952	1,363,600
Net Increase in Cash and Cash Equivalents	675,887	1,540,142
Cash and Cash Equivalents - Beginning of year	5,072,088	3,531,946
Cash and Cash Equivalents - End of year	**$ 5,747,975**	**$ 5,072,088**
Supplemental Cash Flow Information - Cash paid for interest	$ 75,858	$ 68,010

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. All Habitat mortgage activities transitioned to AMS as of November 1, 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). AMS completed its first mortgage financing transaction on July 26, 2018.

Habitat initially capitalized AMS in 2018 through the contribution of $1.0 million of cash and $6,973,958 of mortgages receivable (including an unamortized mortgage discount of $2,685,791). Habitat has subsequently contributed $3,649,944 to AMS through June 30, 2020. Habitat has also committed to contribute all of its remaining unencumbered mortgage receivables and the proceeds from the sale of any mortgage to AMS over time. AMS intends to raise additional capital in the form of loans or grants from banks, foundations, and other sources in the future.

On April 18, 2019, AMS received certification from Department of the Treasury's Community Development Financial Institution Fund (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 institution.

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) are 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.

Note 1 - Nature of Organization (Continued)

Although AMS is a distinct and separate legal entity from Habitat, it will be disregarded for tax purposes and included in Habitat's 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.

Habitat Community Housing Development, Inc.

Habitat Community Housing Development, Inc. (HCHD) is 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 is the sole member of HCHD.

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, HCHD, and HFCI, collectively referred to 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.

In accordance with U.S. GAAP, a noncontrolling interest in HFHI NMTC SUB-CDE II, LLC (see Note 8) is accounted for under the equity method of accounting.

Habitat evaluates these investments annually for other-than-temporary declines in value. No impairment losses were recognized for 2020 and 2019.

Note 2 - Significant Accounting Policies (Continued)

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, 2020, Habitat had deposits in excess of federally insured limits of approximately $5,702,000. 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 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

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, 2020 and 2019, 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.

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.

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.

Note 2 - Significant Accounting Policies (Continued)

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.

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, 2020 and 2019 was $39,357 and $119,958, respectively. The unamortized balance at June 30, 2020 and 2019 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 the 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 within the year 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.

As of July 1, 2019, Habitat adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2018-08, *Clarifying the Scope and Accounting Guidance (Topic 958) for Contributions Received and Contributions Made*, which provides enhanced guidance to assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal transactions) and (2) determining whether a contribution is conditional. Habitat adopted the new standard on a modified prospective basis. The standard did not have a significant impact on the contributions received by Habitat and did not require a restatement of prior year amounts.

Donated Services and Assets

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 2020, Habitat estimated the cost of volunteer labor to be approximately $44,300 for a single-family home and $5,325 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 Habitat home during 2020 and 2019, respectively.

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.

Note 2 - Significant Accounting Policies (Continued)

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). HFCI and AMS are disregarded entities for tax purposes and are, therefore, included in the tax reporting of Habitat.

Upcoming Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which will supersede the current revenue recognition requirements in Topic 605, *Revenue Recognition*. The ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The new guidance will be effective for Habitat's year ending June 30, 2021. The ASU permits application of the new revenue recognition guidance using one of two retrospective application methods. Habitat plans to apply the standard using the modified retrospective method.

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.

Note 2 - Significant Accounting Policies (Continued)

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.

Subsequent Events

The consolidated financial statements and related disclosures include evaluation of events up through and including November 6, 2020, which is the date the consolidated financial statements were available to be issued.

Note 3 - Liquidity and Availability of Resources

The following reflects Habitat's financial assets as of June 30, 2020 and 2019, 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:

	2020	2019
Cash and cash equivalents	$ 5,747,975	$ 5,072,088
Investments held by The Denver Foundation	2,594,333	3,881,453
Grants receivable	651,990	319,743
Mortgage notes receivable - Available for sale and balances collectible winin one year	10,025,001	3,969,806
Donor-imposed restrictions	(3,211,734)	(3,028,495)
Board-advised funds	(2,000,000)	(2,000,000)
Financial assets available to meet cash needs for general expenditures within one year	$ 13,807,565	$ 8,214,595

Habitat manages its liquidity and reserves following four 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 the 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, 2020, which it could draw upon if needed, as further described in Note 10.

During the years ended June 30, 2020 and 2019, the level of liquidity and reserves was managed within the policy requirements.

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.

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

	2020	2019
Ordinary income	$ 44,928	$ 64,544
Realized gains	24,965	75,985
Unrealized (losses) gains	(57,957)	48,997
Total	$ 11,936	$ 189,526

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. 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.

Changes in Level 3 assets measured at fair value on a recurring basis for the years ended June 30, 2020 and 2019 are as follows:

	2020	2019
Beginning balance	$ 3,881,453	$ 4,756,346
Investment income - Net	11,936	189,526
Distributions	(1,250,000)	(1,000,000)
Distributions for fees paid to the Foundation	(49,056)	(64,419)
Ending balance	$ 2,594,333	$ 3,881,453

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 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:

	2020	2019
Held to maturity - Net	$ 11,074,824	$ 12,696,295
Available for sale	9,289,521	3,420,838
Total	$ 20,364,345	$ 16,117,133

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

	2020	2019
Face value of outstanding held to maturity mortgage notes receivable	$ 15,936,167	$ 18,268,202
Less discount	(4,861,343)	(5,571,907)
Total	$ 11,074,824	$ 12,696,295

Approximately $840,000 will be due in the year ending June 30, 2021 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.

Loans Sold to a Colorado Governmental Agency

During the year ended June 30, 2020, AMS entered into certain agreements to sell its interest in certain mortgages receivable to a Colorado Governmental Agency (CGA), receiving $2,723,159 in cash proceeds related to sales under these agreements. Under an agreement entered into in June 2020, AMS has the option to sell up to $3,000,000, of which approximately $1,740,000 remains outstanding. These transactions were recorded as sales.

In April and May 2018, Habitat sold its interest in certain mortgages receivable to a CGA, receiving $2,023,795 in cash proceeds related to the sale. This transaction was recorded as a sale.

In a previous year, 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.

Note 6 - Mortgage Notes Receivable (Continued)

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, 2020 and 2019, the outstanding principal balance of loans held by CGA that are guaranteed by Habitat and AMS was approximately $8,770,000 and $7,020,000, respectively. There were no repurchases during the year ended June 30, 2020. During the year ended June 30, 2019, Habitat repurchased one delinquent loan from a CGA for $17,110.

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.

The following summarizes Habitat loans sold to banks and the outstanding principal balance of loans serviced by Habitat as of June 30, 2020 and 2019:

	Outstanding Principal Balance of Loans Guaranteed as of June 30			
Bank Acquiring Mortgage Loan	Fiscal Year of Sale	Habitat Proceeds Received	2020	2019
Bank B	2020	$ 3,315,847	$ 3,394,316	$ -
Bank E	2019	1,929,688	1,812,988	1,862,278
Bank E	2019	1,296,821	1,181,243	1,219,964
Bank B	2019	3,299,168	3,897,507	4,179,660
Bank B	2019	3,351,866	3,728,732	4,024,816
Bank C	2018	1,246,478	1,257,993	1,333,391
Bank C	2017	1,717,024	1,581,545	1,710,426
Bank B	2016	4,718,966	3,751,238	4,095,574
Bank B	2015	5,614,408	4,866,291	5,519,103
Bank A	2014	1,032,467	1,085,046	1,139,786
Bank A	2013	1,991,754	1,568,046	1,805,182

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.

Note 6 - Mortgage Notes Receivable (Continued)

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	2020	2019
Bank D*	2020	$ 2,915,933	$ 3,232,469	$ -
Bank D	2018	2,997,488	2,665,926	2,782,416
Bank D	2014	1,032,467	770,618	815,467

*The outstanding principal balance as of June 30, 2020 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 - 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, 2020 and 2019, 113 and 188 units, respectively, were under development beyond the land purchase phase. Included in the units under development are 68 and 99 home repair projects at June 30, 2020 and 2019, respectively.

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

	2020	2019
Construction in progress	$ 6,064,774	$ 5,662,450
Land under development	2,742,925	3,653,960
Home repairs and renovation units	3,364,608	3,485,836
Total	$ 12,172,307	$ 12,802,246

There were no transfers to property and equipment during the years ended June 30, 2020 and 2019, respectively.

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 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, 2020 and 2019, the change in Habitat's investment balance was $14,234 and $(29,334) for net contributions and distributions from HFHI NMTC.

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

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

	2020	2019
Total assets	$ 21,169,816	$ 21,385,825
Total revenue	216,019	216,019
Net income	216,019	216,019
Total	$ 21,601,854	$ 21,817,863

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, 2020 and 2019, 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, 2020 and 2019 of $188,922 and $228,279, 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, as required by the note agreement as of June 30, 2020 and 2019.

Note 9 - Property and Equipment

Property and equipment are summarized as follows:

	2020	2019
Buildings and improvements	$ 4,342,083	$ 3,420,046
Leasehold improvements	726,525	1,295,293
Rental units	1,071,001	1,071,001
Vehicles	387,267	292,754
Furniture and fixtures	140,904	129,538
Office equipment	128,507	56,050
Construction equipment	82,806	42,347
Total cost	6,879,093	6,307,029
Accumulated depreciation	2,663,628	2,364,965
Property and equipment - Net	$ 4,215,465	$ 3,942,064

Depreciation and amortization expense for 2020 and 2019 was $326,264 and $294,986, respectively.

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 $5,000,000 under these agreements.

Under the agreement for $2,000,000 entered into on December 13, 2019, borrowings are subject to rates based on *The Wall Street Journal* prime rate minus 0.25 percent, with a floor of 4.50 percent (4.50 percent as of June 30, 2020). Interest is payable monthly with the outstanding balance due at maturity on December 13, 2020. At June 30, 2020 and 2019, no balance was outstanding on the line of credit.

Under the agreement for $5,000,000 entered into on June 30, 2020, 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, 2020). Interest is payable monthly with the outstanding balance due at maturity on June 30, 2023. At June 30, 2020, borrowings of $1,036,423 are outstanding. There was no outstanding balance on this line of credit as of June 30, 2019. Deferred debt issuance costs of $28,982 are netted against the outstanding balance of the line of credit and are expected to be amortized over the life of the line of credit.

Under a line of credit agreement with a bank that was terminated on December 13, 2019, Habitat had available borrowings of approximately $1,000,000. At June 30, 2020, no balance was outstanding on the line of credit. At June 30, 2019, the outstanding balance on the line of credit was $250,000.

Note 11 - 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.

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. The loan received under the PPP bears interest at 1.00 percent per annum and is due in monthly payments of principal and interest beginning in November 2020 in the amount of $57,500. All outstanding principal and interest is due in April 2022. Under the provisions of the PPP, this loan may be eligible for forgiveness up to the full principal amount. Habitat expects this loan to be forgiven subsequent to year end, subject to approval by the bank and Small Business Association.

Note 12 - Mortgage Note Payable

Habitat's mortgage note payable was due in equal monthly payments of principal and interest of $10,510 with remaining principal due in a balloon payment on June 30, 2020. The note was payable over 10 years, at a fixed rate of 4.80 percent, with payments amortized over a 20-year basis. The note was secured by a first deed of trust on the Eliot Street and Rio Grande Boulevard real properties, as well as all rents on such properties. During the year ended June 30, 2020, the balance on this note payable was paid in full. The outstanding balance at June 30, 2020 and 2019 was $0 and $1,072,389, respectively.

Note 13 - Notes Payable

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

	2020	2019
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)	$ 2,850,677	$ -
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 6)	2,662,064	2,787,848
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)	771,301	818,077
Promissory note due to the PB and K Family Foundation; interest-only payments due quarterly beginning 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	-
Total	$ 6,534,042	$ 3,605,925

The balance of the above debt matures as follows:

Years Ending June 30	Amount
2021	$ 270,444
2022	270,444
2023	270,444
2024	270,444
2025	270,444
Thereafter	5,181,822
Total	$ 6,534,042

Note 14 - Notes Payable to HFHI

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

	2020	2019
Unsecured, non-interest-bearing notes payable to Habitat International; payable in monthly installments ranging from $78 to $1,328; maturing between July 2020 and January 2026	$ 344,802	$ 353,318

Note 14 - Notes Payable to HFHI (Continued)

Principal payments under the above agreement are as follows:

Years Ending June 30		Amount
2021	$	79,467
2022		78,981
2023		80,245
2024		61,824
2025		34,911
Thereafter		9,374
Total	$	344,802

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 is 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. As of June 30, 2020 and 2019, Habitat is using the remaining funds for those specified purposes and is in compliance with the terms of the note agreements.

As of June 30, 2020 and 2019, Habitat had $2,976,400 and $2,214,101, respectively, of notes outstanding to the City and County of Denver, Colorado.

During the year ended June 30, 2019, $1,056,100 of debt related to prior New Markets Tax Credits were 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.

Note 16 - Net Assets

Net Assets without Donor Restrictions

<u>Board Designated</u>

The board has designated $2,000,000 of unrestricted net assets at June 30, 2020 and 2019 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, 2020 and 2019.

Note 17 - Leases

Habitat is obligated under six operating leases primarily for four ReStore buildings and one production warehouse, expiring at various dates through July 2020 to December 2026. The leases require escalating monthly payments ranging from approximately $330 to $18,700.

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.

Note 17 - Leases (Continued)

Total lease expense under these leases was $762,872 and $772,979 for 2020 and 2019, respectively.

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

Years Ending June 30		Amount
2021	$	588,000
2022		346,000
2023		250,000
2024		217,000
2025		165,000
Thereafter		496,000
Total	$	2,062,000

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, 2020 and 2019, Habitat contributed $291,764 and $257,048, 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 $191,862 and $176,145 for the years ended June 30, 2020 and 2019, respectively.

Note 20 - Commitments and Contingencies

COVID-19 Impacts

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 thousands of individuals worldwide. In response, many countries have implemented measures to combat the outbreak that have impacted global business operations.

Note 20 - Commitments and Contingencies (Continued)

Due to the coronavirus pandemic, Habitat has experienced a significant impact on its operations. The most significant of these impacts was related to certain stay-at-home orders that resulted in the closure of the ReStores from mid-March through April and temporary pauses in homebuilding, along with the utilization of volunteers for in-kind services. Upon reopening, the ReStores have limited hours, implemented social distancing protocols, and increased cleaning and sanitation measures. Closure of the ReStores resulted in approximately $850,000 in lost revenue. The loss in revenue attributable to homebuilding cannot be reasonably estimated; however, it has had a significant impact on the activities of Habitat. Utilization of volunteers in all aspects of Habitat's business was down approximately 39 percent from prior year. 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.

Habitat additionally generates revenue and support from federal and private grants and contracts, which have not been significantly impacted by the pandemic. Habitat recognizes that many federal and private grants may have changing objectives, activities, reporting, and timeliness in situations where the pandemic has impacted capabilities or priorities and has assessed these impacts on a grant-by-grant basis to ensure compliance with the grant agreements.

In order to continue operations, Habitat has adopted significant additional health and safety precautions for its staff, including work from home measures and limitations on all nonessential travel. Further, as described in Note 11, Habitat received a loan under the PPP in the amount of $1,380,000 in order to maintain current workforce and certain other allowable expenses under the terms of the program due to the negative impacts of the coronavirus pandemic. Habitat expects this loan to be forgiven subsequent to year end, subject to approval by the bank and Small Business Association.

Management has assessed the impact the pandemic has had on operations during the period from July 1, 2019 to June 30, 2020 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.

In addition, Habitat’s investment portfolio has experienced significant fluctuations in fair value, consistent with the general volatility in financial markets during the period from July 1, 2019 to June 30, 2020 and through the date of issuance of the consolidated financial statements. However, because the values of individual investments fluctuate with market conditions, the amount of losses that will be recognized in subsequent periods, if any, cannot be determined.

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 monies 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.

Note 20 - Commitments and Contingencies (Continued)

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, 2020 and 2019. 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 - Subsequent Event

Subsequent to year end, Habitat entered into a member substitution agreement, effective on July 31, 2020, with Lowry Community Land Trust in order to become the controlling member of the Colorado Community Land Trust-Denver, LLC (CCLT). Habitat assumed a 99 percent membership interest in CCLT upon the execution of the transaction. CCLT is a 501(c)(3) nonprofit organization.

CCLT was established in 2002 as part of the Lowry redevelopment project. 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 2004. Since then, CCLT has expanded its service area and now has a total portfolio of 215 homes located throughout Lowry, Speer, Cole, and Swansea neighborhoods within the City and County of Denver, Colorado.