BLUE RIDGE HABITAT FOR HUMANITY, INC.

Winchester, Virginia

FINANCIAL REPORT

JUNE 30, 2020

C O N T E N T S

YHB CPAs & Consultants
50 South Cameron St.
Winchester, VA 22601
540.662.3417
YHBcpa.com
540.662.4211

INDEPENDENT AUDITOR'S REPORT

To the Officers and Directors
Blue Ridge Habitat for Humanity, Inc.
Winchester, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of Blue Ridge Habitat for Humanity, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2020, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Blue Ridge Habitat for Humanity, Inc. as of June 30, 2020, and the changes in its net assets, functional expenses, and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Yount, Hyde & Barbour, P.C.

Winchester, Virginia
October 28, 2020

BLUE RIDGE HABITAT FOR HUMANITY, INC.

Statement of Financial Position
June 30, 2020

Assets	
Cash	$ 766,572
Certificates of deposit	50,200
Investments	7,226
ReStore inventory	82,790
Prepaid expenses	17,849
Construction in progress	621,784
Property held for development	209,502
Noninterest-bearing mortgage loans	2,842,397
Discount on noninterest-bearing mortgage loans	(1,483,396)
Beneficial interest in assets held by the Community Foundation of the Northern Shenandoah Valley	37,782
Property and equipment, net of accumulated depreciation	1,073,305
Other assets	11,030
Total assets	$ 4,237,041
Liabilities and Net Assets	
Liabilities	
Accounts payable	$ 35,943
Accrued other expenses	24,063
Accrued payroll taxes	6,079
Accrued sales taxes	3,874
Accrued rent	82,077
Homeowner and tenant deposits	7,856
Capitalized lease payable	959
Note payable	160,400
Total liabilities	321,251
Net Assets	
Without donor restrictions	3,903,817
With donor restrictions	11,973
Total net assets	3,915,790
Total liabilities and net assets	$ 4,237,041

See Notes to Financial Statements.

BLUE RIDGE HABITAT FOR HUMANITY, INC.

Statement of Activities

For the Year Ended June 30, 2020

Changes in net assets without donor restrictions:	
Revenues:	
Grants and contributions	$ 175,148
In-kind contributions	32,881
Fundraising, net of special event expenses of $1,476	3,606
ReStore sales, net of operating expenses of $676,411	703,573
Transfers to homeowners	342,814
Rental income	81,862
Investment return, net	1,190
Mortgage loan discount amortization	91,781
Miscellaneous	553
Gain on disposal of assets	66,988
Net (decrease) in beneficial interest in assets held	(2,408)
Total revenue before releases	1,497,988
Net assets released from restrictions:	
Satisfaction of program restrictions	53,426
Total revenue without donor restrictions	1,551,414
Expenses:	
Program services	987,852
Supporting services:	
Management and general	184,984
Fundraising	125,047
Total supporting services	310,031
Unallocated payments to international organizations:	
SOSI fee	7,500
Total expenses	1,305,383
Changes in net assets without donor restrictions	246,031

See Notes to Financial Statements.

BLUE RIDGE HABITAT FOR HUMANITY, INC.

Statement of Activities (continued)
For the Year Ended June 30, 2020

Changes in net assets with donor restrictions:	
Revenues:	
Grants and contributions	53,050
Net assets released from restrictions:	
Satisfaction of program restrictions	(53,426)
Changes in net assets with donor restrictions	(376)
Changes in total net assets	$ 245,655
Net assets, beginning of year	
Without donor restrictions, before prior period adjustment	$ 3,637,596
With donor restrictions, before prior period adjustment	32,539
Total net assets, beginning of year	$ 3,670,135
Prior period adjustment (Note 19)	
Increase in net assets without donor restrictions	$ 20,190
Decrease in net assets with donor restrictions	(20,190)
Net change in total net assets, beginning of year	$ - -
Net assets, beginning of year	
Without donor restrictions, as adjusted	$ 3,657,786
With donor restrictions, as adjusted	$ 12,349
Total net assets, beginning of year	$ 3,670,135
Net assets, end of year	
Without donor restrictions	$ 3,903,817
With donor restrictions	11,973
Total net assets, end of year	$ 3,915,790

See Notes to Financial Statements.

BLUE RIDGE HABITAT FOR HUMANITY, INC.

Statement of Functional Expenses
For the Year Ended June 30, 2020

		Supporting Services				
	Program Services	**Management and General**	**Fundraising**	**Subtotal**	**ReStore Operating Costs**	**Total**
Accounting	$ - -	$ 29,000	$ - -	$ 29,000	$ - -	$ 29,000
Advertising	598	26	5,504	6,128	2,546	8,674
Appreciation costs	1,402	- -	- -	1,402	93	1,495
Auto and hauling	5,339	95	- -	5,434	5,084	10,518
Conferences and meetings	7,143	2,316	622	10,081	1,269	11,350
Cost of sales	- -	- -	- -	- -	17,229	17,229
Credit card fees	- -	- -	- -	- -	18,724	18,724
Depreciation and amortization	12,941	25,883	12,941	51,765	- -	51,765
Discount on mortgages issued	196,109	- -	- -	196,109	- -	196,109
Dues and licenses	5,172	5,587	- -	10,759	4,312	15,071
Housing construction, rehabilitation and rental maintenance costs	396,773	1,130	45	397,948	1,302	399,250
Insurance	5,400	20,411	- -	25,811	9,063	34,874
Internet and computer expense	1,522	3,550	- -	5,072	1,088	6,160
Miscellaneous	8,388	1,288	38	9,714	891	10,605
Office supplies	721	1,737	- -	2,458	2,364	4,822
Online selling expenses	1,463	- -	- -	1,463	52,342	53,805
Payroll and benefit expense	289,092	59,277	90,466	438,835	349,862	788,697
Payroll taxes	21,603	4,018	7,348	32,969	26,598	59,567
Printing and postage	20	1,710	8	1,738	- -	1,738
Rent expense	23,325	6,175	6,175	35,675	132,065	167,740
Repairs and maintenance	3,170	2,080	- -	5,250	9,874	15,124
Tithes and contributions	214	4,122	- -	4,336	- -	4,336
Travel	1,917	110	125	2,152	287	2,439
Utilities and telephone	5,540	16,469	1,775	23,784	41,418	65,202
Total	$ 987,852	$ 184,984	$ 125,047	$ 1,297,883	$ 676,411	$ 1,974,294

See Notes to Financial Statements.

BLUE RIDGE HABITAT FOR HUMANITY, INC.

Statement of Cash Flows
For the Year Ended June 30, 2020

Cash Flows from Operating Activities	
Change in net assets	$ 245,655
Adjustments to reconcile change in net assets to net cash (used in) operating activities:	
Noncash contribution of properties	(25,000)
Noncash contribution of construction costs	(44,120)
Noncash contribution of equipment	(5,000)
Depreciation and amortization	51,765
Transfers to homeowners, net	(67,834)
Discount on noninterest-bearing mortgage loans	196,109
Mortgage loan discount amortization	(91,781)
Gain on disposal of assets	(66,988)
Changes in assets and liabilities:	
Decrease in receivables	57,764
Decrease in inventory	49,176
(Increase) in prepaid expenses	(4,048)
Decrease in other assets	2,095
(Increase) in cost of construction in progress	(369,903)
(Decrease) in accounts payable	(16,965)
(Decrease) in accrued other expenses	(4,258)
(Decrease) in accrued taxes	(507)
Increase in accrued rent	1,807
(Decrease) in homeowner deposits	(1,363)
Net cash (used in) operating activities	(93,396)

See Notes to Financial Statements.

BLUE RIDGE HABITAT FOR HUMANITY, INC.

Statement of Cash Flows (continued)
For the Year Ended June 30, 2020

Cash Flows from Investing Activities	
Purchase of property and equipment	(5,343)
Purchase of property held for development	(629)
Purchase of investments	(317)
Proceeds from sale of property and equipment	176,550
Net (increase) in beneficial interest in assets held	(17,592)
Investment in certificates of deposit	(12)
Mortgage payments received	140,696
Net cash provided by investing activities	293,353
Cash Flows from Financing Activities	
Proceeds from notes payable	160,400
Payments on capital lease payable	(2,378)
Net cash provided by financing activities	158,022
Change in cash and cash equivalents	357,979
Cash and Cash Equivalents	
Beginning of year	408,593
End of year	$ 766,572
Supplemental Disclosures of Noncash Investing Activities	
Issuance of noninterest-bearing mortgage loans	$ 334,325
Discount on noninterest-bearing mortgage loans	$ 196,109

See Notes to Financial Statements.

Note 1. Summary of Significant Accounting Policies

This summary of significant accounting policies of Blue Ridge Habitat for Humanity, Inc. (the "Organization" or "Habitat") is presented to assist in understanding the Organization's financial statements. The financial statements and notes are representations of the Organization's management, who is responsible for the integrity and objectivity of the financial statements.

Organization

Blue Ridge Habitat for Humanity, Inc. is a nonprofit corporation incorporated in Virginia on June 27, 1996. Habitat is an affiliate of Habitat for Humanity International, Inc. (Habitat International) a nondenominational Christian nonprofit organization whose purpose is to create decent, affordable housing for those in need and to make decent shelter a matter of conscience with people everywhere. Although Habitat International assists with information resources, training, publications, prayer support and in other ways, Habitat is primarily and directly responsible for its own operation. The Organization is supported primarily through donor contributions from various individuals and corporate and religious organizations in the community, and local grant programs. The Organization's service area includes the counties of Clarke, Frederick and Shenandoah, and the City of Winchester. Habitat also operates a ReStore in the City of Winchester to help fund future program costs of the Organization.

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles and presented in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-205, Not-for-Profit Entities, Presentation of Financial Statements.

COVID-19

Beginning around March 2020, the COVID-19 virus has been declared a global pandemic as it continues to spread rapidly. Business continuity, including supply chains and consumer demand across a broad range of industries and countries could be severely impacted for months or beyond as governments and their citizens take significant and unprecedented measures to mitigate the consequences of the pandemic. Management is carefully monitoring the situation and evaluating its options during this time. No adjustments have been made to these financial statements as a result of this uncertainty.

Contributions

The Organization reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reflected as contributions without donor restrictions in the accompanying financial statements.

Donated Materials, Equipment, Free Use of Facilities and Services

Donated materials and equipment are recorded as contributions at their estimated values at date of receipt. Donated use of facilities is recorded at the property's fair rental value. A substantial number of volunteers donate significant amounts of their time in the Organization's program and supporting services. No amounts have been recognized in the accompanying statement of activities, except for contributed services of residential home builders. These services require specialized skills and would typically need to be purchased if not provided by donation. Donated materials and services are often combined when received by the donor and therefore are included with in-kind donations and not separately stated.

Investments

Investment purchases are recorded at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the statement of financial position. Net investment return/(loss) is reported in the statement of activities and consists of interest and dividend income, realized and unrealized gains and losses, less external and internal investment expenses.

Inventory

Substantially all of the items sold in the Organization's ReStore are donated to the Organization. For year-end reporting, donated inventory items held for resale are recorded as in-kind contributions and valued based on subsequent sales. Throughout the year, donated inventory items are only recorded when the sale transaction occurs, which determines the final realization of value. In-kind construction materials are recorded as inventory at fair market value when the materials are not designated to a particular project and to be used at a future date.

Property Held for Development

Held for development properties consists of lots at cost when purchased or fair market value at the date of gift. The lots are valued at lower of specific acquisition and carrying costs or estimated net value.

Property, Equipment and Depreciation

Effective February 2019, the Organization capitalizes all expenditures in excess of $5,000 at cost when purchased or fair market value at the date of gift. Depreciation is provided on the straight-line method over the estimated useful lives of the respective assets. Maintenance and repairs are charged to expense as incurred; major renewals and betterments are capitalized. When items are sold or retired, the related cost and accumulated depreciation are removed from the accounts and any gain or loss is included in income.

Deferred Revenue

Deferred revenue represents amounts received for rent in advance. Additionally, amounts received prior to June 30 for the benefit of events to be held in the following fiscal year have been included in deferred revenue. There was no deferred revenue at June 30, 2020.

Estimates

The preparation of these financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Income Taxes

Habitat has received exemption from income taxes under Section 501(c)(3) of the Internal Revenue Code as a charitable organization under a group exemption letter granted to Habitat for Humanity International by the Internal Revenue Service. Only unrelated business income, as defined by Section 509(a)(1) of the Code, is subject to federal income tax. The Organization currently has no unrelated business income. Accordingly, no provision for income taxes has been recorded. The Organization follows the provisions of FASB ASC 740-10-25. Under these provisions, the Organization must recognize the effects of a tax position when it is more likely than not, based on the technical merits, that the position will be sustained upon examination. The Organization does not believe there are any uncertain tax positions and accordingly, no amounts have been recorded in the financial statements.

Cash and Cash Equivalents

The Organization considers investments with a maturity of three months or less to be cash and cash equivalents.

Transfers to Homeowners

Transfers to homeowners represent sales to individuals which are recorded at the gross mortgage amount plus the down payment received. Noninterest bearing mortgages have been discounted based upon prevailing market rates for low income housing at the inception of the mortgages. The discount on noninterest bearing mortgage loans for June 30, 2020 was 7.38%. Using a present value basis, this discount will be recognized as mortgage loan discount amortization over the term of the mortgage.

Cash Concentrations

Habitat maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. It has not experienced any losses in such accounts. Habitat believes it is not exposed to any significant credit risk for cash.

Advertising

Habitat expenses the cost of advertising as incurred.

Revenue Recognition

In May 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-19, "Revenue from Contracts with Customers (Topic 606)." Topic 606 supersedes the revenue recognition requirements in "Revenue Recognition (Topic 605)" and requires entities to recognize revenue when control of the promised goods or services in transferred to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Organization adopted Topic 606 as of July 1, 2019.

The Organization recognizes revenue in accordance with ASC Topic 606. This standard provides a five-step model for recognizing revenue from contracts with customers as follows:

- Identify the contract with a customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contract
- Recognize revenue when or as performance obligations are satisfied

<u>Nature of Products and Services</u>

ReStore sales are recorded at a point in time when donated inventory is sold. Transfers to homeowners includes revenue from house sales and is recognized at a point in time at the time of the home's closing. Amortization on noninterest bearing mortgages that have been discounted is recognized using the present value method over the term of the mortgage. Rental income is recognized over time in conjunction with the related lease agreement. Fundraising event income includes both exchange transactions as well as contributions and is recognized at a point in time when the event occurs.

Transaction Price

The transaction price is the amount of consideration to which the Organization expects to be entitled in exchange for transferring goods and services to the customer.

Contract Balances

The Organization records accounts receivable when it has the unconditional right to issue an invoice and receive payment. If consideration is received and revenue has not been recognized, a contract liability (deferred revenue) is recorded. The Organization did not recognize a contract liability as of June 30, 2020. The Organization does not recognize revenue in advance of the right to invoice and therefore has not recorded a contract asset as of June 30, 2020.

Upcoming and New Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which requires organizations that lease assets (lessees) to recognize the assets and related liabilities for the rights and obligations created by the leases on the statement of financial position for leases with terms exceeding 12 months. ASU No. 2016-02 defines a lease as a contract or part of a contract that conveys the right to control the use of identified assets for a period of time in exchange for consideration. The lessee in a lease will be required to initially measure the right-of-use asset and the lease liability at the present value of the remaining lease payments, as well as capitalize initial direct costs as part of the right-of-use asset. ASU No. 2016-02 is effective for the Organization for its year ending June 30, 2023. Early adoption is permitted. The Organization is currently evaluating the impact that the adoption of Topic 842 will have on its financial statements.

In June 2018, the FASB issued Accounting Standards Update No. 2018-08, Not-for-Profit Entities (Topic 958), which clarifies the scope and the accounting guidance for contributions received and contributions made. This standard assists entities in evaluation whether transactions should be accounting for as contributions or exchange transactions and determining whether a contribution is conditional. The Organization has implemented the provisions of ASU 2018-08 applicable to both contributions received and to contributions made in the accompanying financial statements. Accordingly, there is no effect on net assets in connection with our implementation of ASU 2018-08.

Note 2. Liquidity and Availability of Funds

The Organization's financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date are as follows:

Financial assets, at year-end:		
Cash	$	766,572
Certificates of deposit		50,200
Investments		7,226
Beneficial interest in assets held		37,782
Noninterest-bearing mortgage loans		2,842,397
Financial assets at year end		3,704,177
Less those unavailable for general expenditure within one year, due to:		
Noninterest bearing mortgage loans with liquidity greater than one year		2,697,161
Beneficial interest in assets held		37,782
Donor-imposed restrictions		11,973
Financial assets not available to be used within one year		2,746,916
Financial assets available to meet cash needs for general expenditures within one year	$	957,261

In February 2019, the Organization adopted a liquidity policy that states a minimum amount of operating funds must be sufficient to maintain ongoing operations and programs for a period of not less than 3 months of average recurring operating expenses. The policy is reviewed every fiscal year at a minimum, or sooner, if warranted and may be changed upon approval from the Board of Directors. The Organization intends for operating funds to be used and replenished on a recurring monthly basis by contributions, ReStore sales, and monthly mortgage receivable payments to meet cash needs for general expenditures. During the year ended June 30, 2020, the level of liquidity and reserves was managed within the policy requirements.

Note 3. Construction in Progress

Construction in progress as of June 30, 2020, consists of costs to date of houses under construction, including acquisition cost, land and sitework.

Note 4. Noninterest-Bearing Mortgage Loans

Habitat sells homes to program participants in exchange for mortgage notes with no interest. These notes are all payable to Habitat over payment terms as determined between each individual participant and Habitat. Generally, these notes carry a term of 15-30 years. At June 30, 2020, Habitat had 44 loans outstanding with a gross value of $2,842,397. Management feels no provision for loan losses is required because Habitat is a secured creditor and the fair market value of the home is in excess of the related mortgage note balances. The following schedule summarizes the payment status of the mortgage loans at June 30, 2020:

	Number of Loans	Loan Amount
Current	36	$ 2,288,957
1-30 days past due	3	345,725
31-60 days past due	1	56,132
61-90 days past due	1	29,861
More than 90 days past due	3	121,722
Total	44	$ 2,842,397

Note 5. Net Assets with Donor Restrictions

Net assets with donor restrictions at June 30, 2020, were available for the following purposes:

Subject to expenditure for a specific purpose:	
Shenandoah repair	$ 5,000
General repair program	6,973
Total assets with donor restrictions	$ 11,973

During the year ended June 30, 2020, $53,426 of net assets were released from donor restrictions by incurring expenses satisfying the donors’ restricted purposes or by the occurrence of other events specified by the donors. Amounts released from restriction consisted of $5,550 for the Clarke County repair program, $11,046 for 431 West Lane, and $36,830 for the General repair program.

Note 6. Fair Value Measurements

FASB ASC 820-10 establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. Financial assets valued using Level 1 inputs are based on unadjusted quoted market prices within active market. Financial assets valued using Level 2 inputs are based primarily on quoted prices for similar assets in active or inactive markets. Financial assets valued for Level 3 inputs are based on significant unobservable inputs. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under the standards are described as follows:

Level 1 - Valuations for assets and liabilities traded in active exchange markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 - Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or similar assets or liabilities or other inputs observable for the asset or liability, either directly or indirectly through corroboration with observable market data. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets and liabilities.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

For the fiscal year ended June 30, 2020, the application of valuation techniques applied to similar assets and liabilities has been consistent. The following is a description of the valuation methodologies used for instruments measured at fair value:

Corporate Common Stock

The fair value of corporate stock is the market value based on quoted market prices, when available, or market prices provided by recognized broker dealers.

Insured Cash Deposits

Insured cash deposits are carried at cost, which approximates fair value based on quoted market prices, when available, or market prices provided by recognized broker dealers.

Certificates of Deposit

Certificates of deposit are recorded at fair value based on estimates using current market rates offered for deposits with similar remaining maturities.

Beneficial Interest in Assets Held

The fair value for the beneficial interest is measured using the fair value of the assets reported by the Community Foundation of the Northern Shenandoah Valley. The Organization considers the measurement of its beneficial interest to be a Level 3 measurement within the fair value measurement hierarchy, because even though the measurement is based on the unadjusted fair value of the beneficial interest held by the Foundation, the investments are not held in accounts owned by Habitat. See Note 8 for reconciliation of Level 3 balances.

The carrying amounts of the Organization's financial instruments not described above arise in the ordinary course of business and approximate fair value.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The Organization recognizes transfers between levels in the fair value hierarchy at the end of the reporting period.

The following table presents the balance of financial assets measured at fair value on a recurring basis as of June 30, 2020:

	Balance as of June 30, 2020	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Insured cash deposits	$ 6,928	$ 6,928	$ - -	$ - -
Corporate common stock	298	298	- -	- -
Certificates of deposit	50,200	- -	50,200	- -
Beneficial interest in assets held by the Community Foundation of the Northern Shenandoah Valley	37,782	- -	- -	37,782
	$ 95,208	$ 7,226	$ 50,200	$ 37,782

Note 7. Investments

Investments consist primarily of insured cash deposits and corporate common stock and are reported at fair value as follows:

	Cost	Observable Fair Market Value	Unrealized Appreciation (Depreciation)
Insured cash deposits	$ 6,928	$ 6,928	$ - -
Corporate common stock	521	298	(223)
	$ 7,449	$ 7,226	$ (223)

The following schedule summarizes the investment return in the statement of activities for the year ended June 30, 2020:

Interest and dividend income	$ 1,190

Note 8. Beneficial Interest in Assets Held

During fiscal year 2018, the Organization created an agency endowed fund, the assets of which are not in possession of the Organization but are held by the Community Foundation of the Northern Shenandoah Valley. The Organization has granted the Foundation variance power which gives the Foundation's board of directors the power to use the fund for other purposes in certain circumstances. The fund is subject to the Foundation's investment and spending policies which prohibits the spending rate to exceed 4%. The distribution is based on the rolling 20 quarter, five-year average of the market value of the portfolio. The Organization reports the fair value of the fund as beneficial interest in assets held by the Community Foundation of the Northern Shenandoah Valley and any distributions received as investment income. There were no distributions for the year ended June 30, 2020. Changes in the value of the fund are reported as net decrease in beneficial interest in assets held in the statement of activities.

The activity in the beneficial interest is as follows:

Beginning value	$ 20,190
Transfer to fund	20,000
Change in value	(2,408)
Ending value	$ 37,782

Note 9. Property and Equipment

Property and equipment at June 30, 2020, consisted of the following:

		Depreciable Lives
Rental properties	$ 1,058,778	27.5 years
Office equipment, furniture and fixtures	51,532	5-7 years
Leasehold improvements	52,660	5-7 years
Vehicles and equipment	131,114	5-7 years
	1,294,084	
Less accumulated depreciation	220,779	
Net property and equipment	$ 1,073,305	

Note 10. Capitalized Lease Payable

Capitalized lease payable at June 30, 2020, consisted of the following:

Capitalized lease payable, collateralized by equipment, payable in monthly installments of $198, through November 2020, with no interest	$ 959

Equipment under the capital lease consists of office equipment with a capitalized cost of $11,886. Accumulated depreciation in the statement of financial position at June 30, 2020 included $11,292 relating to this lease equipment. Depreciation expense reported in the statement of functional expenses includes $2,377 for the equipment under capital lease for the year ended June 30, 2020.

Maturities on the capitalized lease payable consist of the following:

2021	$ 959

Note 11. Note Payable

On May 8, 2020, Habitat was approved a $160,400 loan under the Paycheck Protection Program created as part of the relief efforts related to COVID-19 and administered by the United States Small Business Administration. The loan accrues interest at 1%, but payments are not required to begin for six months after the funding of the loan. Habitat is eligible for loan forgiveness of up to 100% of the loan, upon meeting certain requirements. The loan is uncollateralized and is fully guaranteed by the Federal government.

Note 12. Retirement Plan

Habitat maintains a Simple IRA plan for full-time employees meeting certain eligibility requirements. 1n addition to participant salary deferrals, Habitat may make a discretionary matching contribution equal to a uniform percentage. For the year ended June 30, 2020, Habitat matched salary deferrals up to 3% of the participant's annual gross compensation. The contributions for the year ended June 30, 2020 were $12,027.

Note 13. Functional Allocation of Expenses and Fundraising Expenses

The costs of providing the various programs, supporting services and fundraising activities have been summarized on a functional basis in the statement of functional expenses. Certain categories of expenses are attributable to more than one program or supporting function and are allocated on a reasonable basis that is consistently applied. The expenses that are allocated are compensation and benefits, which are allocated on the basis of estimates of time and effort; and occupancy costs, which are allocated on a square footage basis.

Note 14. ReStore Operations

Habitat operates a ReStore to sell donated construction items. For the year ended June 30, 2020, the ReStore generated product sales, net of sales taxes of $1,379,984, and incurred expenses of $700,629.

Substantially most of the items sold in the ReStore are donated to the Organization. For year-end reporting, donated inventory items held for resale are recorded as in-kind contributions and valued based on subsequent sales. Throughout the year, donated inventory items are only recorded upon sale and final realization of value. As of June 30, 2020, ReStore inventory, was $82,790.

In December 2016, the Organization entered into a lease agreement under a seven-year operating lease with an escalation clause expiring December 1, 2023. The lease agreement contains a renewal option for three additional three-year terms and may not be terminated before the end of the first lease term. The lease contained a provision to offer the Organization a rent-free period from lease commencement through April 1, 2017. The incentive portion of this four-month period along with the escalation clause is required to be amortized as rent expense over the life of the lease term. As of June 30, 2020, the unamortized rent of $82,077, is reflected as accrued rent in the accompanying statement of financial position. During fiscal year 2018, Habitat amended the lease agreement for additional space under two separate amendments which resulted in increased monthly rent. Lease payments were $12,850 at July 1, 2019 and increased to $13,950 by the end of the fiscal year 2020. Rent expense allocated to the ReStore for the year ended June 30, 2020 was $137,940.

Note 15. Transactions with Habitat for Humanity International

Habitat annually remits a portion of its undesignated contributions and required annual U.S. Stewardship and Organizational Sustainability Initiative (US-SOSI) fee to Habitat for Humanity International. These funds are used to construct homes in economically depressed areas around the world and fund Habitat for Humanity International's operational costs. For the year ended June 30, 2020 Habitat remitted $7,500 to Habitat for Humanity International.

Note 16. Commitments and Contingencies

Habitat is contingently liable as guarantor on four mortgages and has agreed to repurchase any of the obligations in the event that the homeowner is delinquent for more than 90 days on any payment. The combined amount of the outstanding mortgage obligations as of June 30, 2020 is approximately $166,000. The mortgages are secured by real estate and the Organization does not believe any significant losses will be absorbed by the Organization.

Note 17. Operating Leases

Habitat entered into a warehouse lease to store construction materials. The agreement commenced on October 1, 2017, under a three year noncancelable lease expiring October 1, 2020. Annual lease payments are $4,800.

In addition, as described in Note 14, Habitat leases warehouse space to conduct its ReStore operations. During the year ended June 30, 2018, Habitat renovated a portion of the space to allow for all Habitat employees to be in one location. Rent expense is allocated between the ReStore and affiliate operations.

Rent expense, not allocated to the ReStore, for the year ended June 30, 2020 was $29,800.

The minimum lease payments required under the above operating leases as of June 30, 2020 are as follows:

Years Ending June 30:	
2021	$ 175,700
2022	186,500
2023	192,500
2024	97,500
Total minimum lease payments	$ 652,200

Note 18. Related Parties

A board member is an employee of a local bank where the Organization maintains one of its certificates of deposit.

Note 19. Prior Period Adjustment

The Organization recorded a prior period adjustment to net assets as of June 30, 2019 of $20,190 to reflect the beneficial interest in assets held by the Community Foundation of the Northern Shenandoah Valley as net assets without donor restrictions. This prior period adjustment had no effect on the change in net assets.

Note 20. Subsequent Events

On July 29, 2020, the Organization sold the property located at 212 Baker Street, Winchester, VA for $186,000. This property was included in construction in progress on the statement of financial position at June 30, 2020.

Subsequent events were evaluated through October 28, 2020, which is the date the financial statements were available to be issued. The Organization has determined there are no additional subsequent events that require recognition or disclosure.