HABITAT FOR HUMANITY OF
LEE AND HENDRY COUNTIES, INC.

CONSOLIDATED FINANCIAL REPORT

JUNE 30, 2020

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MAULDIN & JENKINS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Habitat for Humanity of Lee and Hendry Counties, Inc.
North Fort Myers, Florida

We have audited the accompanying consolidated financial statements of **Habitat for Humanity of Lee and Hendry Counties, Inc.** (a non-profit organization) (the “Habitat”), which comprise the consolidated statement of financial position as of June 30, 2020, and the related consolidated statements of activities, functional expenses, and cash flows for the period then ended, and the related notes to the consolidated financial statements.

Management’s Responsibility for the 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 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 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 Lee and Hendry Counties, Inc. as of June 30, 2020, and the changes in its net assets and its cash flows for the period then ended in accordance with accounting principles generally accepted in the United States of America.

Mauldin & Jenkins, LLC

Bradenton, Florida
October 7, 2020

HABITAT FOR HUMANITY OF LEE AND HENDRY COUNTIES, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2020

ASSETS		
Cash and cash equivalents		
Operating	$	3,474,470
Escrow funds		339,598
Accounts receivable		37,827
Grants receivable		25,555
Investments for gift annuity obligations		143,977
Prepaid expenses and deposits		237,731
Building materials inventory		58,016
First and second mortgages receivable, net		13,216,115
Land held for home sites		8,778,374
Construction in progress		4,810,897
Property and equipment, net		3,085,513
Total assets	$	34,208,073
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and other accrued liabilities	$	861,079
Escrow accounts payable		101,313
Annuity obligations payable		115,927
PPP loan		1,013,672
Long-term debt		6,367,072
Total liabilities		8,459,063
Net assets		
Without donor restrictions		
Undesignated		24,762,134
Board designated for future projects		986,876
Total without donor restrictions		25,749,010
Total liabilities and net assets	$	34,208,073

See Notes to Consolidated Financial Statements.

HABITAT FOR HUMANITY OF LEE AND HENDRY COUNTIES, INC.

CONSOLIDATED STATEMENT OF ACTIVITIES
PERIOD ENDED JUNE 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Changes in net assets			
Revenue and support			
Contributions			
Cash and pledge contributions	$ 1,575,723	$ 205,155	$ 1,780,878
Materials and services	974,392	-	974,392
Land donations	18,600	-	18,600
Special events (less direct expenses of $79,375)	1,055,237	-	1,055,237
Grants and subsidies	1,022,774	-	1,022,774
Application fees	46,363	-	46,363
Retail store sales	2,473,561	-	2,473,561
Amortization of mortgage discounts	217,632	-	217,632
Interest income	4,404	-	4,404
Rental income	396,402	-	396,402
Change in gift annuities	(21,874)	-	(21,874)
Loss on sale of land held for home sites	(90,872)	-	(90,872)
Loss on disposal of property and equipment	(162,431)	-	(162,431)
Miscellaneous revenue	10,111	-	10,111
Releases from restrictions	1,052,722	(1,052,722)	-
	8,572,744	(847,567)	7,725,177
Transfers to homeowners for mortgage loans	3,443,823	-	3,443,823
Total revenue and support	12,016,567	(847,567)	11,169,000
Expenses			
Program services			
Construction	7,442,811	-	7,442,811
Retail stores	2,451,065	-	2,451,065
Family services	304,776	-	304,776
Rentals	562,914	-	562,914
Total program service expenses	10,761,566	-	10,761,566
Administrative and general	627,296	-	627,296
Fundraising	212,965	-	212,965
Total administrative and general and fundraising expenses	840,261	-	840,261
Changes in net assets	414,740	(847,567)	(432,827)
Net assets, beginning of year	25,334,270	847,567	26,181,837
Net assets, end of year	$ 25,749,010	$ -	$ 25,749,010

See Notes to Consolidated Financial Statements.

HABITAT FOR HUMANITY OF LEE AND HENDRY COUNTIES, INC.

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
PERIOD ENDED JUNE 30, 2020

	Program Services				Total	Administrative		
	Construction	Retail Stores	Family Services	Rentals	Program Services	and General	Fundraising	Total
Construction costs	$ 6,873,355	$ -	$ -	$ -	$ 6,873,355	$ -	$ -	$ 6,873,355
Direct program expenses								
Volunteer department	195,678	-	-	-	195,678	-	-	195,678
Tithe to Habitat for Humanity International	252,994	-	-	-	252,994	-	-	252,994
Program indirect expenses								
Communication	51,788	51,788	51,788	51,788	207,152	-	-	207,152
Development	-	-	-	-	-	-	212,965	212,965
Cost of retail store sales	-	2,298,769	-	-	2,298,769	-	-	2,298,769
Family services cost	-	-	59,526	-	59,526	-	-	59,526
Mortgage expenses	-	-	193,462	-	193,462	-	-	193,462
Rental costs	-	-	-	396,076	396,076	-	-	396,076
Office and other salaries	-	-	-	-	-	325,146	-	325,146
Insurance	-	-	-	-	-	16,761	-	16,761
Mortgage interest	-	-	-	-	-	57,683	-	57,683
Office operations	-	-	-	-	-	112,353	-	112,353
Maintenance	-	-	-	-	-	65,934	-	65,934
Real estate taxes and fees	-	-	-	-	-	23,482	-	23,482
Utilities	-	-	-	-	-	21,331	-	21,331
Miscellaneous	-	-	-	-	-	2,916	-	2,916
Total functional expenses before depreciation	7,373,815	2,350,557	304,776	447,864	10,477,012	625,606	212,965	11,315,583
Depreciation	68,996	100,508	-	115,050	284,554	1,690	-	286,244
Total functional expenses	$ 7,442,811	$ 2,451,065	$ 304,776	$ 562,914	$ 10,761,566	$ 627,296	$ 212,965	$ 11,601,827

See Notes to Consolidated Financial Statements.

HABITAT FOR HUMANITY OF LEE AND HENDRY COUNTIES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
PERIOD ENDED JUNE 30, 2020

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from contracts and donations	$ 11,940,403
Cash payments for program and support services	(15,477,559)
Cash received for interest	4,404
Cash payments for interest	(95,498)
Net cash used in operating activities	(3,628,250)
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of property and equipment	(44,858)
Proceeds from sale of property and equipment	4,355,000
Payments on the issuance of mortgages	(1,773,400)
Mortgage payments received	(217,632)
Net cash provided by investing activities	2,319,110
CASH FLOWS FROM FINANCING ACTIVITIES	
Annuity payments	(18,660)
Proceeds from long-term debt financing	2,277,875
Principal payments on notes and mortgages payable	(249,946)
Net cash provided by financing activities	2,009,269
Increase in cash and cash equivalents	700,129
Cash and cash equivalents, beginning of year	3,113,939
Cash and cash equivalents, end of year	$ 3,814,068
Operating cash	$ 3,474,470
Escrow cash	339,598
	$ 3,814,068

See Notes to Consolidated Financial Statements.

HABITAT FOR HUMANITY OF LEE AND HENDRY COUNTIES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
PERIOD ENDED JUNE 30, 2020

Changes in net assets	$	(432,827)
Adjustments to reconcile changes in net assets to		
net cash (used in) operating activities		
Depreciation		286,244
Loss on disposal of property and equipment		162,431
Loss on sale of land held for homesites		90,872
Donated land held for home sites		(18,600)
Donated materials and services		(155,544)
(Increase) decrease in assets		
Accounts receivable		401,862
Grants receivable		373,945
Charitable annuity split-interest agreements		60,799
Prepaid expenses and deposits		16,575
Building materials inventory		161,808
Land held for home sites		(2,085,254)
Construction in progress		(1,963,874)
Increase (decrease) in liabilities		
Accounts payable and other accrued liabilities		(460,175)
Escrow accounts payable		(78,024)
Annuity obligations payable		11,512
Net cash (used in) operating activities	$	(3,628,250)

See Notes to Consolidated Financial Statements.

NOTE 1. NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization

Habitat for Humanity of Lee and Hendry Counties, Inc. (the "Habitat") is a non-profit organization funded by public contributions. Habitat was incorporated on October 8, 1982, and is dedicated to providing affordable home ownership in Lee County and Hendry County, Florida, for those families who cannot otherwise afford a decent place to live.

Habitat is an affiliate of Habitat for Humanity International, Inc. ("Habitat International"), a nondenominational Christian, not-for-profit organization whose purpose is to create 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 operations. Habitat has chosen to contribute a tithe on undesignated revenue received to Habitat International, as part of the affiliation.

Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include all of the accounts and activity of Habitat for Humanity of Lee and Hendry Counties, Inc., Majorca Palms, LLC, HFHLHC Funding Company I, LLC, Habitat Harlem Heights, LLC, and Habitat McNeil, LLC. All transactions between the above entities have been eliminated in consolidation and the above entities are collectively referred to as the "Organization."

Majorca Palms, LLC (formerly known as "Habitat for Humanity Senior Housing, LLC") was incorporated under the laws of the State of Florida in 2007, for the purpose of operating the rental complexes. In 2014, Habitat changed the name of Habitat for Humanity Senior Housing, LLC to Majorca Palms, LLC. Habitat is the sole member of the Majorca Palms, LLC.

HFHLHC Funding Company I, LLC was incorporated under the laws of the State of Florida in 2014, for the purpose of securitizing 21 mortgage notes that were sold in 2014 (see Note 6). Habitat is the sole member of the HFHLHC Funding Company I, LLC.

Habitat Harlem Heights, LLC was incorporated under the laws of the State of Florida in 2016, for the purpose of developing and constructing future home-sites. Habitat is the sole member of the Habitat Harlem Heights, LLC.

Habitat McNeil, LLC was incorporated under the laws of the State of Florida in 2017, for the purpose of limiting liability exposure for the McNeil neighborhood land development project. Habitat is the sole member of the Habitat McNeil, LLC.

NOTE 1. NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Significant Accounting Policies (Continued)

Accounting Period

The Organization changed its fiscal year-end to June 30 to more closely align with other Habitat organizations. The accompanying consolidated financial statements contain the activity from the close of the prior fiscal year (September 30, 2019) to June 30, 2020.

Basis of Presentation

The Organization's consolidated financial statements have been prepared on the accrual basis of accounting and accordingly, reflect all significant receivables, payables and other liabilities.

The accompanying consolidated financial statements have been prepared in conformity with the disclosure and display requirements of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958, *Not-for-Profit Entities*. Accordingly, net assets are reported in each of the following two classes:

> <u>Net assets without donor restrictions</u> – Net assets that are not subject to donor-imposed stipulations. The Board has designated $986,876 for future projects.
>
> <u>Net assets with donor restriction</u> – Net assets with donor restrictions are created only by donor-imposed stipulations. Some donor-imposed stipulations are temporary in nature, such as those that will be met either by actions of the Organization and/or the passage of time. Other donor-imposed stipulations are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities as net assets released from restrictions. Donor restricted contributions whose restrictions are met in the same accounting period are reported as net assets without donor restrictions.

Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, the Organization considers all highly liquid debt instruments with a maturity of three months or less to be cash equivalents.

Net Assets With Donor Restrictions

Net assets with Donor Restrictions are those resources currently available for use, but expendable only for purposes specified by the donor. Such resources originate from contributions restricted for specific purposes. There are no net assets with donor restrictions at June 30, 2020. During the period ended June 30, 2020, there were $1,052,722 of net assets with donor restrictions released from restriction due to satisfaction of donor intent for construction projects.

NOTE 1. NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Significant Accounting Policies (Continued)

Gifts and Contributions

Habitat records contributions upon receipt of an unconditional promise to give, less an allowance for uncollectible amounts and an allowance for the present value of gifts to be received over more than one year. Gifts, bequests, and other promises or receipts restricted by donors as to use or time period are recorded as net assets with donor restrictions until used in the manner designated or upon expiration of the time period. Donated property and equipment are recorded at fair market value at the date received as net assets with or without donor restrictions, based on the donor's intent.

When the assets are used for their intended purposes, the applicable amount is transferred to net assets without donor restrictions.

Grants and Subsidies

Habitat recognizes grants and subsidies as revenue in the period earned. For grants that are reimbursement basis, Habitat records revenue and a receivable when the condition identified in the grant has been completed. As of June 30, 2020, Habitat has grants receivable of $25,555.

Investments for Gift Annuity Obligations

Habitat is a named beneficiary under certain charitable gift annuity arrangements. Under these arrangements, Habitat receives the contributed amounts upon the execution of the agreement and is required to pay a fixed annuity to the donor during the lifetime of the donor. Habitat has recorded the contributed assets based on fair value and the annuity obligation based on the present value of future cash flows expected to be paid. The difference between the fair value of amounts contributed and the annuity obligation is recognized as contribution revenue without donor restrictions. Changes in the recorded assets and annuity obligations due to changes in life expectancy, present value actuarial assumptions, or market value of assets are reflected as other revenue in the accompanying consolidated statements of activities and changes in net assets.

Upon death of the grantor and the receipt of the monies, Habitat will recognize the revenues according to the donor restrictions, if any. A discount rate of 2% was used to determine the present value of all split interest agreements at June 30, 2020.

NOTE 1. NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Significant Accounting Policies (Continued)

Building Materials Inventory

Building materials are stated at the lower of cost (utilizing the first-in, first-out method) or market.

Mortgages Receivable

First mortgages from the sale of houses are interest free amounts due from the home buyer. Second mortgages on houses represent the difference between the first mortgage and the sales price of the home, less any homeowner assistance grants received. Both mortgages are interest free to the homeowner but are discounted at an appropriate rate of interest for financial statement presentation purposes.

A loan is considered impaired when it is probable, based on current information and events, the Organization will be unable to collect all principal payments due in accordance with the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal payments when due.

Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Impaired loans are measured by the fair value of the collateral. The amount of impairment, if any, and any subsequent changes are included in the allowance for loan losses.

Allowance for Loan Losses

The allowance for loan losses is established through a provision for loan losses charged to expense. Loan losses are charged against the allowance when management believes the collectability of the principal is unlikely. Subsequent recoveries, if any, are credited to the allowance.

The allowance is an amount that management believes will be adequate to absorb estimated losses relating to specifically identified loans, as well as probable credit losses inherent in the balance of the loan portfolio, based on an evaluation of the collectability of existing loans and prior loss experience. This evaluation also takes into consideration such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans, concentrations and current economic conditions that may affect the borrower’s ability to pay.

NOTE 1. NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Significant Accounting Policies (Continued)

Allowance for Loan Losses (Continued)

This evaluation does not include the effects of expected losses on specific loans or groups of loans that are related to future events or expected changes in economic conditions. While management uses the best information available to make its evaluation, future adjustments to the allowance may be necessary if there are significant changes in economic conditions. For the period ending June 30, 2020, the Organization's allowance for loan loss is $200,000.

The allowance consists of specific and general components. The specific components relate to loans that are impaired. For such loans that are classified as impaired, an allowance is established when the collateral value of the impaired loan is lower than the carrying value of that loan. The general component covers unimpaired loans and is based on historical experience adjusted for qualitative factors.

Second mortgages are held on most homes sold. The terms of the second mortgages range from 10 to 20 years, and must be satisfied if the home is sold within the term of the mortgage. The second mortgages are offset by second mortgage reserves of $1,860,744, as of June 30, 2020, as reported on the consolidated statements of financial position, because payment on these mortgages is waived over the term of the mortgage. Second mortgages issued prior to January 2006, decrease on a pro-rata basis over the term of the mortgage. Second mortgages issued after January 2006, remain at the full balance until the end of the mortgage term.

Foreclosed Assets

Foreclosed homes acquired through or in lieu of loan foreclosure are refurbished for future qualified residents and are initially recorded at the lower of cost or fair value. Any write-down to fair value at the time of transfer to foreclosed assets is charged to the allowance for loan losses. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Costs of improvements are capitalized, whereas costs relating to holding foreclosed homes and subsequent adjustments to the value are expensed.

NOTE 1. NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Significant Accounting Policies (Continued)

Land and Construction Inventory

Land Held for Home and Commercial Property Sites

Land purchased for homes and commercial property sites is recorded at cost unless it is determined to be impaired, in which case the impaired land is written down to fair value. Donated land is recorded at the donor's appraised amount or the property appraiser's value. All related carrying costs for these properties such as maintenance, any assessments, real estate taxes, etc. are capitalized into the cost of the properties. Habitat reviews land for impairment during each reporting period on a lot by lot basis. Generally accepted accounting principles require that if the undiscounted cash flows expected to be generated by an asset are less than its carrying amount, an impairment charge should be recorded to write down the carrying amount of such asset to its fair value.

Construction in Progress

Costs of construction in progress consist of a budgeted amount for the land transferred from land inventory to the construction account and direct home construction costs, unless it is determined to be impaired. In which case, the impaired construction in progress is written down to fair value. Construction overhead is expensed as incurred. Homes completed pending closing are classified as construction in progress until delivered. Habitat reviews construction in progress for impairment during each reporting period on a lot by lot basis. Generally accepted accounting principles require that if the undiscounted cash flows expected to be generated by an asset are less than its carrying amount, an impairment charge should be recorded to write down the carrying amount of such asset to its fair value.

Habitat estimates fair values of land and construction inventory evaluated for impairment under generally accepted accounting principles based on market conditions and assumptions made by management at the time they are evaluated, which may differ materially from actual results if market conditions or assumptions change. For example, further market deterioration or changes in assumptions may lead to Habitat incurring additional impairment charges on previously impaired land and construction inventory, as well as on land and construction inventory in progress not currently impaired but for which indicators of impairment may arise if further deterioration occurs.

Property and Equipment

Property and equipment are recorded at cost or estimated fair market value on the date received. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, ranging from three to 39 years.

NOTE 1. NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Significant Accounting Policies (Continued)

Donated Property and Equipment

Donations of property and equipment (in-kind contributions) are recorded as revenue at their estimated fair value at the date of donation. Such donations are reported as support without donor restrictions, unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support.

Revenue Recognition

It is Habitat's policy to sell affordable housing with interest free mortgages. In accordance with generally accepted accounting principles, the mortgages receivable have been discounted based upon the prevailing market rates at the inception of the mortgage and the discount recognized in income over the life of the mortgage. Retail store sales are recognized as revenue at the time of purchase. Transfers to homeowners for mortgage loans and application fees are recognized as revenue when the home is sold to the homeowner. Rental income is recognized as revenue over the term of the lease in accordance with the lease terms.

Impairment Loss

For assets to be held and used, generally accepted accounting principles require the recognition of an impairment loss whenever events or changes in circumstances have indicated that an asset may be impaired and the future cash flows from that asset are less than the asset's carrying amount. The impairment loss is measured as the difference between the asset's carrying amount and its fair value.

During the period ended June 30, 2020, Habitat did not have any impairment losses related to land held for home sites.

Donated Materials and Services

Donations of building materials (in-kind contributions) are recorded at their estimated fair value at the date of donation.

Donated materials and professional services in the amount of $974,392 were recognized as contributed material and services for the period ended June 30, 2020.

No amounts have been reflected in the consolidated statements of activities for volunteer services because the criteria for recognition of such volunteer efforts under FASB guidance have not been satisfied. Nevertheless, volunteers have donated a substantial amount of their time to the program services of the Organization.

NOTE 1. NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Significant Accounting Policies (Continued)

Program Services

Program services include construction, family services, senior housing, and providing affordable home furnishings in the retail stores. The cost of home building or rehabilitation is charged to program services as the homes are completed and sold.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the consolidated statements of functional expenses, and the consolidated statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefitted on a reasonable basis that is consistently applied. Some expenses are directly identifiable and are charged to programs and supporting services accordingly. Administrative and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization. Allocations of significant costs are based on estimates of time and effort and other reasonable methods.

During the period ending June 30, 2020, Habitat continued a Disaster Recovery Program (“DRP”) for qualifying low income homeowners in Lee or Hendry Counties whose homes were damaged by Hurricane Irma. The program staffing and repair expenses totaled $166,609, for the period ended June 30, 2020, and are included on the schedule of functional expenses under construction. Habitat collected $265,778, in grants, donations and homeowner insurance proceeds specific to this program during the period ended June 30, 2020, and are included in the statement of activities under grants and subsidies. As of June 30, 2020, the DRP funds have been fully utilized.

Income Taxes

The Internal Revenue Service has determined that the Organization is exempt from federal income taxes under the provisions of Internal Revenue Code Section 501(c)(3). Accordingly, no provision for income taxes has been made in these financial statements.

Management of Habitat considers the likelihood of changes by taxing authorities in its exempt Organization returns and discloses potential significant changes that management believes are more likely than not to occur upon examination by tax authorities. Management has not identified any uncertain tax positions in filed returns that require disclosure in the accompanying financial statements.

Habitat files the Form 990 in the U.S. Federal Jurisdiction.

NOTE 1. NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Significant Accounting Policies (Continued)

Use of Estimates

The preparation of consolidated financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts and disclosures. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change in the near term related to the determination of the allowance for loan losses, the valuation of land and construction in progress and the determination of accrued construction rehab costs.

Recently Issued and Adopted Accounting Pronouncements

In June 2018, the FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made,* which establishes standards for characterizing grants and similar contracts with resource providers as either exchange transactions or contributions.

In May 2014, FASB issued Accounting Standards Update 2014-09 (ASU 2014-09), *Revenue from Contracts with Customers*. The amendments in this update require changes to the way not-for-profit entities record revenue.

In November 2016, FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash.* The update requires that the statement of cash flows explain the change during the period in total cash, cash equivalents and amounts generally described as restricted cash or cash equivalents. Therefore, amounts generally described as restricted cash and cash equivalents have been included with cash and cash equivalents when reconciling the beginning of year and end of year cash total amounts shown on the accompanying consolidated statement of cash flows. The beginning balance of cash on the consolidated statement of cash flows from the 2019 consolidated financial statements has been adjusted to conform to the 2020 presentation and disclosure requirements of ASU 2016-18. The adjustment did not have an effect on total assets or net assets for the year ended September 30, 2019.

The Organization adopted the guidance in ASU 2018-08, 2014-09 and 2016-18 as of October 1, 2019. The adopted of these standards did not have a significant impact on the way the Organization recognizes revenue or reports cash flows.

NOTE 2. LIQUIDITY AND AVAILABILITY

The Organization's working capital and cash flows have seasonal variations during the year attributable to contributions, grants, retail sales and mortgage loans earned throughout the year. The Organization manages liquidity during the year by utilizing the following strategies: operating within a budget that reflects the Board of Directors' strategy, regular analysis of actual operating results versus budget, and establishment of an operating reserve fund funded to be used to fund operating shortfalls with the approval of the Board of Directors.

The following table reflects the Organization's total financial assets as of June 30, 2020, which could be made available within 12 months to meet operating expenditures:

Financial assets available to meet operating expenditures over the next 12 months	
Cash, operating	$ 3,474,470
Accounts receivable	37,827
Grants receivable	25,555
Mortgages receivable, due within one year	997,051
Less Board designated net assets	(986,876)
	$ 3,548,027

NOTE 3. ESCROW CASH

Funds received from homebuyers prior to closing are held in escrow and restricted to closing costs on home sales. Habitat also holds funds in escrow as security deposits for its rental units. These escrow funds are recorded as cash with a corresponding liability in the consolidated financial statements as escrow accounts payable.

As of June 30, 2020, Habitat held $628,689 in tax and insurance escrow funds. These assets, along with the corresponding liability, are not included on the consolidated statements of financial position.

NOTE 4. MORTGAGES RECEIVABLE

There were first mortgages receivable on 220 homes at June 30, 2020.

The following is a summary of mortgages receivable, presented net of the imputed interest amounts:

Balance, beginning of year	$	11,225,083
New mortgages		4,011,345
		15,236,428
Payments		(217,632)
Change in discount rate		(897,796)
Sale of mortgages		(904,885)
	$	13,216,115

Maturities of first mortgage notes receivable are summarized as follows:

Gross amounts due in:		
Less than one year	$	997,051
1 to 5 years		3,772,770
After 5 years		12,206,650
		16,976,471
Unamortized discount		(3,560,356)
Allowance for doubtful accounts		(200,000)
Net amounts due	$	13,216,115

The following is a summary of information pertaining to impaired and non-impaired loans:

Gross non-impaired loans with a valuation allowance	$	15,635,284
Valuation allowance for non-impaired loans		(200,000)
Net gross non-impaired loans	$	15,435,284
Gross impaired loans with a valuation allowance	$	1,541,187
Valuation allowance for non-impaired loans		-
Net gross non-impaired loans	$	1,541,187
Second mortgages with a valuation allowance	$	1,860,744
Valuation allowance for second mortgages		(1,860,744)
Net second mortgages	$	-

During the period ended June 30, 2020, Habitat sold mortgages receivable with a book value of $1,005,428 for $904,885.

NOTE 5. HOME BUILDING AND SITE PREPARATION ACTIVITY

During the period ended June 30, 2020, 28 homes were transferred to homeowners and 44 were under rehabilitation or completed at year-end.

NOTE 6. PROPERTY AND EQUIPMENT

At June 30, 2020, the carrying value of property and equipment and the related accumulated depreciation are as follows:

Land	$	486,354
Buildings and building improvements		3,930,210
Office fixtures and equipment		84,590
Computer equipment		59,734
Forklifts and other equipment		86,534
Vehicles		1,173,696
		5,821,118
Less accumulated depreciation		(2,735,605)
	$	3,085,513

NOTE 7. LEASE OBLIGATIONS

Operating Leases

Habitat leases office equipment and retail space for two retail store locations under non-cancelable operating leases with varying terms through June 2026. Rent expense under these leases were $324,448 for the period ended June 30, 2020.

Minimum future rental payments under the non-cancelable operating leases having a remaining term in excess of one year as of June 30, 2020, are:

Year ending June 30,		
2021	$	352,574
2022		270,530
2023		254,733
2024		249,636
2025		263,397
Thereafter		334,980
	$	1,725,850

NOTE 8. LINES OF CREDIT

The Organization has a line of credit in the amount of $1,000,000 with a financial institution. The line of credit bears interest at Prime (3.25% at June 30, 2020), and matures in March 2021. There is no outstanding balance at June 30, 2020.

The Organization has a second line of credit in the amount of $1,000,000, originally entered into in 2015, with a financial institution to fund the single family affordable housing projects. In March 2017, the Organization renewed the line of credit of $1,000,000 with the same financial institution. The renewed line of credit bears interest at Prime (3.25% at June 30, 2020), and matures in March 2021. The line of credit is secured by the assignment of notes and mortgages receivable. There is no outstanding balance at June 30, 2020.

The Organization has a third line of credit in the amount of $1,000,000 with a financial institution. The line of credit bears interest at Prime (3.25% at June 30, 2020) with a floor of 4.75% and matures on November 20, 2020. There is no outstanding balance at June 30, 2020.

NOTE 9. LONG-TERM DEBT

Note payable secured by real estate, payable to a financial institution in monthly interest payments that bear interest at 4.25%, with the outstanding principal balance due in October 2021.	$	1,414,456
Unsecured investment bond payable to a financial institution, quarterly interest payments of 0.25%, full balance due September 2023.		500,000
Note payable secured by real estate, payable to a financial institution at 3% interest and monthly payments of $1,367 beginning August 2017 with final payment due June 2023.		46,794
Note payable secured by the vehicle, to finance a vehicle purchase, payable to a finance company at 1.9% interest and monthly payments of $771 with final payment due November 2020.		3,070
Note payable secured by the vehicle, to finance a vehicle purchase, payable to a finance company at 1.9% interest and monthly payments of $771 with final payment due November 2020.		3,842
Note payable secured by the vehicle, to finance a vehicle purchase, payable to a finance company at 1.9% interest and monthly payments of $900 with final payment due December 2020.		5,321
Note payable secured by Board designated funds, to fund sub-granting under the Self-Help Ownership Program (SHOP), payable to Habitat International at 0.00% interest and monthly payments of $416 with final payment due December 2021.		9,953

NOTE 9. LONG-TERM DEBT (CONTINUED)

Note payable secured by Board designated funds, to fund sub-granting under the Self-Help Ownership Program (SHOP), payable to Habitat International at 0.00% interest and monthly payments of $437 with final payment due July 1, 2023.	18,504
Note payable secured by Board designated funds, to fund sub-granting under the Self-Help Ownership Program (SHOP), payable to Habitat International at 0.00% interest and monthly payments of $625 with final payment due December 1, 2023.	30,000
Note payable with an available borrowing limit of up to $750,000 to fund pre-development costs for the Harlem Heights project, payable to Florida Housing Finance Corporation (FHFC) at 1.00% interest and annual payments of $16,073 with final payment due July 2019.	749,990
Note payable secured by the vehicle, to finance a vehicle purchase, payable to a finance company at 6.59% interest and monthly payments of $1,135 and payments each December of $20,000 with final payment due December 2020.	24,938
Note payable secured by real estate, payable to a financial institution at 4.875% interest and a lump sum payment in December 2021	1,071,000
Note payable secured by real estate, payable to a financial institution at 4.25% interest and a lump sum payment in October 2022	1,225,000
Note payable secured by real estate, payable to a financial institution at 5.00% interest and payments beginning November 2024	1,264,204
	$ 6,367,072

NOTE 9. LONG-TERM DEBT (CONTINUED)

Principal maturities of long-term debt at June 30, 2020, are as follows:

Year ending June 30,		
2021	$	1,484,946
2022		1,104,619
2023		2,505,804
2024		360,000
2025		352,500
Thereafter		559,203
	$	6,367,072

In April 2020, the Organization obtained a loan through the Paycheck Protection Program – Small Business Administration for $1,013,672 due to COVID-19. The loan is administered through a local financial institution with a fixed interest rate of 1% per year. The loan will mature in April 2022, two years from date of first disbursement and management anticipates with the 24 week forgiveness period the entire amount of the loan will be forgiven.

NOTE 10. FAIR VALUE MEASUREMENTS

Generally accepted accounting principles (GAAP), 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. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical 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 GAAP are described as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that Organization has the ability to access.

Level 2 – Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability; and
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially all of the full term of the asset or liability.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

NOTE 10. FAIR VALUE MEASUREMENTS (CONTINUED)

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.

Assets Measured at Fair Value on a Recurring Basis

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2020.

Mutual funds: Valued at the fair value of shares held by Habitat at year-end.

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 Habitat 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 following table sets forth by level, within the fair value hierarchy, Habitat's assets at fair value as of June 30, 2020:

	Level 1	Level 2	Level 3	Total
Mutual funds	$ 143,977	$ -	$ -	$ 143,977
Total assets at fair value	$ 143,977	$ -	$ -	$ 143,977

Following is a description of the valuation methodologies used for instruments measured at fair value on a non-recurring basis and recognized in the accompanying balance sheet, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Impaired loans: Loan impairment is reported when full payment under the loan terms is not expected. Impaired loans are carried at the fair value of collateral. A portion of the allowance for loan losses is allocated to impaired loans if the value of such loans is deemed to be less than the unpaid balance. If these allocations cause the allowance for loan losses to require increase, such increase is reported as a component of the provision for loan losses. Loan losses are charged against the allowance when management believes the uncollectibility of a loan is confirmed. When the fair value of the collateral is based on an observable market price or a current appraised value, the Organization records the loan impairment as nonrecurring Level 2.

Impaired land held for home sites: Land held for home sites impairment are reported when the current tax appraised values are less than its carrying amount, an impairment charge should be recorded to write down the carrying amount of such assets to its fair value. When the fair values of such assets are based on current tax appraised values, the Organization records the land held for homes sites as nonrecurring Level 2.

NOTE 11. MORTGAGE LOAN SERVICE AGREEMENT

Habitat services the mortgages it holds, handling the processing of mortgage payments and escrow accounts for the mortgages. In addition, Habitat also services mortgages totaling $30,988,928 as of June 30, 2020, that it sold to outside investors. These mortgages are not owned by Habitat and, therefore, are not reflected in the consolidated financial statements.

NOTE 12. TITHE TO HABITAT INTERNATIONAL

Habitat annually remits a portion of its revenues to Habitat International. These funds are used to construct homes in economically depressed areas around the world. Habitat contributed $252,994 for the period ended June 30, 2020. This amount is included in program services expense in the consolidated statement of functional expenses.

NOTE 13. LEE COUNTY AND CITY OF CAPE CORAL CONTRACTS

During the period ending June 30, 2020, Habitat entered into various contracts with Lee County and the City of Cape Coral to construct or rehabilitate 31 single family homes. These contracts were funded through the Florida State Housing Initiative Partnership Program.

NOTE 14. CONCENTRATION OF CREDIT RISK

Habitat maintains cash balances at several financial institutions located in Southwest Florida. Accounts in each institution are insured by the Federal Deposit Insurance Corporation up to the statutory limit. At June 30, 2020, Habitat's uninsured cash balances totaled $2,230,757.

NOTE 15. MORTGAGE LOAN COMMITMENTS

When Habitat sells mortgages to third parties, it agrees with the buyer to replace any delinquent mortgage loan with a mortgage of approximately the same amount. The buyer of the loans must request that this be done. The mortgages summarized in Note 5 are subject to this replacement requirement.

NOTE 16. RELATED PARTY TRANSACTIONS

The Organization paid $40,754 to a law firm that has a board member as a stockholder during the period ended June 30, 2020.

The Organization paid $1,580 to an accounting firm that has a board member as a stockholder during the period ended June 30, 2020.

The Organization paid $3,664 to an organization that has a board member as a stockholder for an event during the period ended June 30, 2020.

NOTE 16. RELATED PARTY TRANSACTIONS (CONTINUED)

The Organization paid $60,896 to an auto insurance company that has a board member as management during the period ended June 30, 2020.

The Organization maintains its operating account and money market account in a commercial bank that a board member is an executive vice president of the Organization also has an unsecured line of credit with the same commercial bank (see Note 9).

NOTE 17. RETIREMENT PLAN

Habitat's employees participate in a defined contribution plan. Employees eligible to participate in the plan must be at least 21 years of age and have three months of service. The plan allows for employee contributions which Habitat may match up to a maximum of 4% of eligible compensation. The employer match expenses for the years ended June 30, 2020, are $76,374.

NOTE 18. COMMITMENTS AND CONTINGENCIES

During March 2020, the World Health Organization declared the Coronavirus outbreak a global pandemic. Actions taken around the world to help mitigate the spread of the Coronavirus include restrictions on travel, and quarantines in certain areas, and forced closures for certain types of public places and businesses. The Coronavirus and actions taken to mitigate it have had, and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the geographical area in which the Organization operates. While it is unknown how long these conditions will last and what the complete financial effect will be to the Organization, to date, the Organization has seen a decrease in revenue. As the economy continues to open throughout its geographic region, management anticipates revenue to return to normal levels. The ultimate impact of the pandemic on the Organization's results of operations, financial position, and liquidity or capital resources cannot be reasonably estimated at this time.

Habitat is involved in a number of legal actions relating to delinquent mortgages. It is the policy of Habitat to foreclose or receive the residence by way of a deed in lieu of foreclosure. Habitat does not anticipate any losses to be incurred from any of these legal actions.

NOTE 19. SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through October 7, 2020, the date on which the financial statements were available to be issued, noting no events that have occurred for disclosure in the financial statements.