HABITAT FOR HUMANITY OF
LEE AND HENDRY COUNTIES, INC.

CONSOLIDATED FINANCIAL REPORT

JUNE 30, 2022

HABITAT FOR HUMANITY OF LEE AND HENDRY COUNTIES, INC.

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MAULDIN & JENKINS
CPAs & ADVISORS

INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the accompanying consolidated financial statements of **Habitat for Humanity of Lee and Hendry Counties, Inc.** (a nonprofit organization) (the "Habitat"), which comprise the consolidated statement of financial position as of June 30, 2022, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

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

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Habitat's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Habitat's ability to continue as a going concern for a reasonable period of time.

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

Mauldin & Jenkins, LLC

Bradenton, Florida
October 20, 2022

HABITAT FOR HUMANITY OF LEE AND HENDRY COUNTIES, INC.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2022

ASSETS

Cash and cash equivalents		
Operating	$	2,294,460
Escrow funds		262,971
Accounts receivable		970,528
Unconditional promises to give		600,000
Grants receivable		490,000
Investments		75,930
Prepaid expenses and deposits		124,711
Building materials inventory		31,742
First and second mortgages receivable, net		17,350,737
Land held for home sites		10,962,812
Construction in progress		5,117,524
Property and equipment, net		2,237,541
Total assets	$	40,518,956

LIABILITIES AND NET ASSETS

Liabilities		
Accounts payable and other accrued liabilities	$	1,708,357
Escrow accounts payable		227,437
Annuity obligations payable		59,248
PPP loan		134,011
Long-term debt		5,840,315
Total liabilities		7,969,368
Net assets		
Without donor restrictions		
Undesignated		30,886,230
Board designated for future projects		1,063,358
With donor restrictions		
Time		600,000
Total net assets		32,549,588
Total liabilities and net assets	$	40,518,956

See Notes to Consolidated Financial Statements.

HABITAT FOR HUMANITY OF LEE AND HENDRY COUNTIES, INC.

CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Changes in net assets			
Revenue and support			
Contributions			
Cash and pledge contributions	$ 4,750,125	$ 600,000	$ 5,350,125
Materials and services	972,371	-	972,371
Land donations	78,290	-	78,290
Special events (less direct expenses of $25,657)	1,237,367	-	1,237,367
Grants and subsidies	1,624,916	-	1,624,916
Application fees	250,997	-	250,997
Retail store sales	4,173,291	-	4,173,291
Amortization of mortgage discounts	288,712	-	288,712
Interest income	4,606	-	4,606
Rental income	198,559	-	198,559
Change in gift annuities	(18,024)	-	(18,024)
Gain on sale of land held for home sites	7,732	-	7,732
Loss on disposal of property and equipment	(350,137)	-	(350,137)
Miscellaneous revenue	1,429,665	-	1,429,665
Net assets released from restriction	502,876	(502,876)	-
	15,151,346	97,124	15,248,470
Transfers to homeowners for mortgage loans	5,716,338	-	5,716,338
Total revenue and support	20,867,684	97,124	20,964,808
Expenses			
Program services			
Construction	11,403,254	-	11,403,254
Retail stores	3,721,440	-	3,721,440
Family services	1,078,899	-	1,078,899
Rentals	221,224	-	221,224
Total program service expenses	16,424,817	-	16,424,817
Administrative and general	484,744	-	484,744
Fundraising	243,828	-	243,828
Total administrative and general and fundraising expenses	728,572	-	728,572
Changes in net assets	3,714,295	97,124	3,811,419
Net assets, beginning of year	28,235,293	502,876	28,738,169
Net assets, end of year	$ 31,949,588	$ 600,000	$ 32,549,588

See Notes to Consolidated Financial Statements.

HABITAT FOR HUMANITY OF LEE AND HENDRY COUNTIES, INC.

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2022

	Program Services				Total	Administrative		
	Construction	Retail Stores	Family Services	Rentals	Program Services	and General	Fundraising	Total
Construction costs	$ 10,467,474	$ -	$ -	$ -	$ 10,467,474	$ -	$ -	$ 10,467,474
Direct program expenses								
Volunteer department	534,020	534,020	-	-	1,068,040	-	-	1,068,040
Tithe to Habitat for Humanity International	284,403	-	-	-	284,403	-	-	284,403
Program indirect expenses								
Communication	58,948	58,948	58,948	58,948	235,792	-	-	235,792
Development	-	-	-	-	-	-	243,828	243,828
Cost of retail store sales	-	3,042,323	-	-	3,042,323	-	-	3,042,323
Family services cost	-	-	1,019,484	-	1,019,484	-	-	1,019,484
Rental costs	-	-	-	121,047	121,047	-	-	121,047
Office and other salaries	-	-	-	-	-	232,570	-	232,570
Insurance	-	-	-	-	-	8,300	-	8,300
Mortgage interest	-	-	-	-	-	4,730	-	4,730
Office operations	-	-	-	-	-	111,703	-	111,703
Maintenance	-	-	-	-	-	25,084	-	25,084
Real estate taxes and fees	-	-	-	-	-	16,113	-	16,113
Utilities	-	-	-	-	-	17,183	-	17,183
Miscellaneous	-	-	-	-	-	33,858	-	33,858
Total functional expenses before depreciation	11,344,845	3,635,291	1,078,432	179,995	16,238,563	449,541	243,828	16,931,932
Depreciation	58,409	86,149	467	41,229	186,254	35,203	-	221,457
Total functional expenses	$ 11,403,254	$ 3,721,440	$ 1,078,899	$ 221,224	$ 16,424,817	$ 484,744	$ 243,828	$ 17,153,389

See Notes to Consolidated Financial Statements.

HABITAT FOR HUMANITY OF LEE AND HENDRY COUNTIES, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2022

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from contracts and donations	$ 19,346,552
Cash payments for program and support services	(20,176,294)
Cash received for interest	4,606
Cash payments for interest	(73,119)
Net cash used in operating activities	(898,255)
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of property and equipment	(101,436)
Proceeds from sale of property and equipment	18,910
Payments on the issuance of mortgages	(1,302,452)
Mortgage payments received	288,712
Net cash used in investing activities	(1,096,266)
CASH FLOWS FROM FINANCING ACTIVITIES	
Annuity payments	(17,640)
Proceeds from long-term debt financing	552,434
Principal payments on notes and mortgages payable	(830,903)
Net cash used in financing activities	(296,109)
Decrease in cash and cash equivalents	(2,290,630)
Cash and cash equivalents, beginning of year	4,848,061
Cash and cash equivalents, end of year	$ 2,557,431
Operating cash	$ 2,294,460
Escrow cash	262,971
	$ 2,557,431

See Notes to Consolidated Financial Statements.

HABITAT FOR HUMANITY OF LEE AND HENDRY COUNTIES, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2022

Changes in net assets	$	3,811,419
Adjustments to reconcile changes in net assets to		
net cash used in operating activities		
Depreciation		221,457
Loss on disposal of property and equipment		350,137
Gain on sale of land held for homesites		(7,732)
Donated land held for homesites		(78,290)
Donated materials and services		(98,191)
Forgiveness of PPP loan		(879,659)
(Increase) decrease in assets		
Accounts receivable		(814,015)
Unconditional promises to give		(600,000)
Grants receivable		(199,635)
Charitable annuity split-interest agreements		416,836
Prepaid expenses and deposits		(2,487)
Building materials inventory		35,318
Land held for homesites		(1,840,518)
Construction in progress		(1,575,939)
Increase (decrease) in liabilities		
Accounts payable and other accrued liabilities		227,370
Escrow accounts payable		143,531
Annuity obligations payable		(7,857)
Net cash used in operating activities	$	(898,255)

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 faith based, non-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 McNeill, 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 homesites. Habitat is the sole member of the Habitat Harlem Heights, LLC.

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

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

Significant Accounting Policies (Continued):

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 $1,063,358 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. Habitat has $600,000 of net assets with donor restrictions as of June 30, 2022.

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 $600,000 of net assets with donor restrictions at June 30, 2022.

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, 2022, Habitat has grants receivable of $490,000.

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, 2022.

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 year ending June 30, 2022, 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 $3,713,589 as of June 30, 2022, 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 year ended June 30, 2022, Habitat did not have any impairment losses related to land held for homesites.

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

Significant Accounting Policies (Continued):

Donated Materials and Services

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

For the year ended June 30, 2022, contributed nonfinancial assets recognized within the consolidated statement of activities included:

Contracted labor	$ 874,180
Land	78,290
Materials	17,538
Services	73,813
Other	6,840
	$ 1,050,661

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.

Program Services

Program services include construction, family services, owner occupied repairs, 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 statement of functional expenses, and the consolidated statement 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.

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

Significant Accounting Policies (Continued):

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.

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.

Recent Accounting Pronouncements

In September 2020, FASB issued Accounting Standards Update (ASU) 2020-07, *Presentation and Disclosure by Not-For-Profit for Contributed Nonfinancial Assets,* to increase transparency of contributed nonfinancial assets through enhancements to presentation and disclosure. For the year, ending June 20, 2022, the Habitat adopted ASU 2020-07 and has adjusted the presentation in these consolidated financial statements accordingly. This adjustment did not have an effect on total net assets or the change in total net assets for 2022.

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, 2022 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	$ 2,294,460
Accounts receivable	970,528
Unconditional promises to give	600,000
Grants receivable	490,000
Mortgages receivable, due within one year	1,263,179
Less Board designated net assets	(1,063,358)
Less net assets with donor restrictions	(600,000)
	$ 3,954,809

NOTE 3 UNCONDITIONAL PROMISES TO GIVE

Unconditional promises to give as of June 30, 2022 consisted of the following:

Receivable in less than one year	$ 300,000
Receivable in one to five years	300,000
	600,000
Less discounts to net present value	-
Less allowance for uncollectible promises to give	-
Net unconditional promises to give	$ 600,000

NOTE 4. 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, 2022, Habitat held $242,112 in tax and insurance escrow funds. These assets, along with the corresponding liability, are not included on the consolidated statement of financial position.

NOTE 5. MORTGAGES RECEIVABLE

There were first mortgages receivable on 245 homes at June 30, 2022.

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

Balance, beginning of year	$ 16,336,997
New mortgages	6,872,490
	23,209,487
Payments	(288,712)
Change in discount rate	(1,970,431)
Sale of mortgages	(3,599,607)
	$ 17,350,737

Maturities of first mortgage notes receivable are summarized as follows:

Gross amounts due in:	
Less than one year	$ 1,263,179
1 to 5 years	4,757,390
After 5 years	16,450,070
	22,470,639
Unamortized discount	(4,919,902)
Allowance for doubtful accounts	(200,000)
Net amounts due	$ 17,350,737

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

Gross non-impaired loans with a valuation allowance	$ 21,181,274
Valuation allowance for non-impaired loans	(200,000)
Net non-impaired loans	$ 20,981,274
Gross impaired loans with a valuation allowance	$ 1,289,365
Valuation allowance for impaired loans	-
Net impaired loans	$ 1,289,365
Second mortgages with a valuation allowance	$ 3,713,859
Valuation allowance for second mortgages	(3,713,859)
Net second mortgages	$ -

During the year ended June 30, 2022, Habitat sold mortgages receivable with a book value of $3,779,556 for $3,599,606.

NOTE 6. HOME BUILDING AND SITE PREPARATION ACTIVITY

During the year ended June 30, 2022, 45 homes were transferred to homeowners, 39 new homes were completed, 10 homes were rehabbed, and 4 homes were repaired. Total production was 62 at year-end.

NOTE 7. PROPERTY AND EQUIPMENT

At June 30, 2022, the carrying value of property and equipment and the related accumulated depreciation are as follows:

Land	$	431,354
Buildings and building improvements		3,371,778
Office fixtures and equipment		117,055
Computer equipment		47,578
Forklifts and other equipment		60,051
Vehicles		1,053,672
		5,081,488
Less accumulated depreciation		(2,843,947)
	$	2,237,541

NOTE 8. LEASE OBLIGATIONS

Operating Leases

Habitat leases office equipment and retail space for three retail store locations under non-cancelable operating leases with varying terms through September 2026. Rent expense under these leases was $515,964 for the year ended June 30, 2022.

Minimum future rental payments under the non-cancelable operating leases having a remaining term in excess of one year as of June 30, 2022 are:

Year ending June 30,		
2022	$	429,249
2023		429,390
2024		448,545
2025		361,926
2026		66,996
	$	1,736,106

NOTE 9. 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 (4.00% at June 30, 2022), and matures in March 2023. There is no outstanding balance at June 30, 2022.

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 (4.00% at June 30, 2022), and matures in March 2023. The line of credit is secured by the assignment of notes and mortgages receivable. There is no outstanding balance at June 30, 2022.

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 (4.00% at June 30, 2022) with a floor of 4.75% and matures on November 20, 2022. There is no outstanding balance at June 30, 2022.

NOTE 10. LONG-TERM DEBT

Note payable secured by real estate, payable to a financial institution in monthly interest payments that bear interest at 5.25%, with the outstanding principal balance due in October 2024.	$	866,289
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 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.		10,075
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.		16,250
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 $156 with final payment due July 1, 2027.		7,500

NOTE 10. 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 $61 with final payment due July 1, 2027.	2,947
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 $122 with final payment due January 1, 2026.	5,890
Note payable secured by vehicle, payable to a financial insitution at 2.10% interest with final payment May 23, 2027	23,300
Note payable secured by vehicle, payable to a financial insitution at 2.10% interest with final payment May 29, 2027	23,640
Note payable secured by real estate, payable to a financial institution at 5.625% interest with a balloon payment in January 2029.	1,071,000
Note payable secured by real estate, payable to a financial institution at 4.25% interest with a balloon payment in December 2022.	1,225,000
Note payable secured by real estate, payable to a financial institution at Prime less 0.25% and a lump sum payment in September 4, 2022.	681,381
Note payable secured by real estate, payable to a financial institution at 5.00% interest and payments beginning November 2024.	1,407,043
	$ 5,840,315

NOTE 10. LONG-TERM DEBT (CONTINUED)

Principal maturities of long-term debt at June 30, 2022 are as follows:

Year ending June 30,		
2023	$	3,844,508
2024		22,353
2025		879,990
2026		13,839
2027		8,625
Thereafter		1,071,000
	$	5,840,315

In January 2021, the Organization obtained a loan through the Paycheck Protection Program – Small Business Administration for $1,013,670 due to COVID-19. The loan is administered through a local financial institution with a fixed interest rate of 1% per year. During the year ended June 30, 2022, 879,659 was forgiven and is recognized on the statement of activities in contributions and $134,011 is due to the Small Business Administration at June 30, 2022.

NOTE 11. 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.

NOTE 11. FAIR VALUE MEASUREMENTS (CONTINUED)

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

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, 2022.

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, 2022:

	Level 1	Level 2	Level 3	Total
Mutual funds	$ 75,930	$ -	$ -	$ 75,930
Total assets at fair value	$ 75,930	$ -	$ -	$ 75,930

NOTE 11. FAIR VALUE MEASUREMENTS (CONTINUED)

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 homesites: Land held for homesites 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 home sites as nonrecurring Level 2.

NOTE 12. NET ASSETS WITH DONOR RESTICTIONS

Habitat has $600,000 of net assets with donor restrictions as of June 30, 2022. The funds are restricted for time and are included with unconditional promises to give on the accompanying statement of financial position. Releases from restrictions were $502,876 for the year ended June 30, 2022.

NOTE 13. 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 $31,947,685 as of June 30, 2022, that it sold to outside investors. These mortgages are not owned by Habitat and, therefore, are not reflected in the consolidated financial statements.

NOTE 14. 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 $284,403 for the period ended June 30, 2022. This amount is included in program services expense in the consolidated statement of functional expenses.

NOTE 15. LEE COUNTY AND CITY OF CAPE CORAL CONTRACTS

During the year ending June 30, 2022, Habitat entered into various SHIP contracts with Lee County and the City of Cape Coral to construct or rehabilitate 49 single family homes of which 15 closed before June 30, 2022. These contracts were funded through the Florida State Housing Initiative Partnership Program.

NOTE 16. 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, 2022, Habitat's uninsured cash balances totaled $1,908,591.

NOTE 17. 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 18. RELATED PARTY TRANSACTIONS

The Organization paid $34,088 to a law firm that has a board member as a stockholder during the period ended June 30, 2022.

The Organization paid $14,566 to an insurance company that has a board member as management during the period ended June 30, 2022.

The Organization paid $23,470 to a design and engineering firm that has a board member as a stockholder during the period ended June 30, 2022.

The Organization paid $22,331 to a construction company that has a board member as a stockholder during the period ended June 30, 2022.

The Organization paid $71,220 to an auto insurance company that has a board member as management during the period ended June 30, 2022.

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 19. 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 year ended June 30, 2022 are $95,507.

NOTE 20. LAND SALES

Habitat held a parcel of land approximately 59.04 acres in Lee County Florida, commonly referred to as the "Tice" parcel, held for future building of homesites. On July 27, 2022, Habitat entered into a contract to sell the parcel for $11,000,000 which is estimated to close in December 2022.

Habitat held a parcel of land approximately 35.40 acres in Lee County Florida, commonly referred to as the "Diplomat North" parcel, held for future building of homesites. On March 1, 2022, Habitat entered into a contract to sell the parcel for $6,100,000 which is estimated to close in July 2023.

NOTE 21. SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through October 20, 2022 the date on which the financial statements were available to be issued, noting no events that have occurred for disclosure in the financial statements.

On September 28, 2022, several of the Organization's buildings were damaged by Hurricane Ian. All of the buildings are covered by insurance and the Organization has not suffered any material losses as a result of the damage.