HABITAT FOR HUMANITY GREATER ORLANDO AND OSCEOLA COUNTY, INC. AND SUBSIDIARY

Consolidated Financial Statements

June 30, 2020 and 2019

With Independent Auditor's Report

withum

ADVISORY TAX AUDIT

Habitat for Humanity Greater Orlando and Osceola County, Inc. and Subsidiary
Table of Contents
June 30, 2020 and 2019

Independent Auditor's Report	1-2
Consolidated Financial Statements	
Consolidated Statements of Financial Position	3
Consolidated Statements of Activities	4
Consolidated Statements of Cash Flows	5
Consolidated Statements of Functional Expenses	6-7
Notes to Consolidated Financial Statements	8-22

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ADVISORY TAX AUDIT

INDEPENDENT AUDITOR'S REPORT

Board of Directors,
Habitat for Humanity Greater Orlando
and Osceola County, Inc. and Subsidiary:

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Habitat for Humanity Greater Orlando and Osceola County, Inc. and Subsidiary (the "Organization"), which comprise the consolidated statements of financial position as of June 30, 2020 and 2019, and the related consolidated statements of activities, cash flows and functional expenses for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

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Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Organization as of June 30, 2020 and 2019, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Withum Smith+Brown, PC

December 21, 2020

Habitat for Humanity Greater Orlando and Osceola County, Inc. and Subsidiary
Consolidated Statements of Financial Position
June 30, 2020 and 2019

	2020	2019
Assets		
Cash and cash equivalents	$ 1,281,274	$ 760,342
Restricted cash	477,407	475,497
Grants receivable	173,916	67,886
Contributions receivable, net of discounts	120,000	30,050
Home inventory	1,148,348	834,119
Homes in process	363,381	886,619
Land held for development	1,565,015	1,940,779
Property and equipment, net	1,753,648	1,809,088
Other assets	181,246	178,021
Mortgage loans receivable, net of discounts	11,923,970	12,206,440
Assets of discontinued operations	-	46,581
Total assets	$ 18,988,205	$ 19,235,422
Liabilities and Net Assets		
Liabilities		
Accounts payable	$ 168,821	$ 172,273
Accrued expenses	92,955	247,485
Lines of credit	2,387,211	3,048,028
Notes payable	1,725,719	1,285,135
Secured borrowings, net	6,833,118	6,482,484
Deferred revenue	210,000	140,000
Liabilities of discontinued operations	-	44,412
Total liabilities	11,417,824	11,419,817
Net assets		
Without donor restrictions	7,450,381	7,539,216
With donor restrictions	120,000	276,389
Total net assets	7,570,381	7,815,605
Total liabilities and net assets	$ 18,988,205	$ 19,235,422

The Notes to Consolidated Financial Statements are an integral part of these statements.

Habitat for Humanity Greater Orlando and Osceola County, Inc. and Subsidiary
Consolidated Statements of Activities
Years Ended June 30, 2020 and 2019

	2020			2019		
	Without Donor Restrictions	**With Donor Restrictions**	**Total**	**Without Donor Restrictions**	**With Donor Restrictions**	**Total**
Revenue, support and gains						
Sales to homeowners, net of mortgage origination discounts	$ 4,064,498	$ -	$ 4,064,498	$ 3,633,115	$ -	$ 3,633,115
Contributions	1,196,151	-	1,196,151	1,068,191	-	1,068,191
Grants	325,236	265,000	590,236	1,178,143	246,339	1,424,482
In-kind contributions	823,862	-	823,862	646,879	-	646,879
Amortization of mortgage loan discounts	147,921	-	147,921	384,012	-	384,012
Other income	220,093	-	220,093	29,118	-	29,118
Interest income	4,557	-	4,557	11,840	-	11,840
Net assets released from restrictions	421,389	(421,389)	-	297,498	(297,498)	-
Total revenue, support and gains	7,203,707	(156,389)	7,047,318	7,248,796	(51,159)	7,197,637
Expenses						
Program services	5,644,209	-	5,644,209	6,004,852	-	6,004,852
Supporting services						
Fundraising	556,969	-	556,969	481,609	-	481,609
Management and general	1,091,364	-	1,091,364	884,481	-	884,481
Total expenses	7,292,542	-	7,292,542	7,370,942	-	7,370,942
Change in net assets from						
Continuing operations	(88,835)	(156,389)	(245,224)	(122,146)	(51,159)	(173,305)
Discontinued operations	-	-	-	(577,430)	-	(577,430)
Net change in net assets	(88,835)	(156,389)	(245,224)	(699,576)	(51,159)	(750,735)
Net assets						
Beginning of year	7,539,216	276,389	7,815,605	8,238,792	327,548	8,566,340
End of year	$ 7,450,381	$ 120,000	$ 7,570,381	$ 7,539,216	$ 276,389	$ 7,815,605

The Notes to Consolidated Financial Statements are an integral part of these statements.

Habitat for Humanity Greater Orlando and Osceola County, Inc. and Subsidiary
Consolidated Statements of Cash Flows
Years Ended June 30, 2020 and 2019

	2020	2019
Operating activities		
Change in net assets	$ (245,224)	$ (750,735)
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation and amortization on property and equipment	70,773	68,033
Amortization of debt issuance costs to interest expense	45,995	41,648
Amortization of mortgage loan discounts	(147,921)	(384,012)
Mortgage originations	(798,749)	(2,897,487)
Discounts on mortgage originations	185,122	737,975
Donated land held for development	40,000	(98,400)
Gain on disposal of property and equipment	(9,012)	(38,849)
(Increase) decrease in		
Grants and contributions receivable	(195,980)	118,624
Home inventory	(314,229)	(152,540)
Homes in process	523,238	(372,431)
Land held for development	335,764	406,276
Other assets	43,356	(28,693)
Increase (decrease) in		
Accounts payable and accrued expenses	(199,306)	57,778
Deferred revenue	70,000	(468,225)
Net cash used in operating activities of continuing operations	(596,173)	(3,761,038)
Net cash provided by operating activities of discontinued operations	-	105,613
Net cash used in operating activities	(596,173)	(3,655,425)
Investing activities		
Purchases of property and equipment	(9,409)	(26,746)
Proceeds from sale of equipment	-	67,386
Principal payments received on mortgage loans receivable	1,044,018	884,074
Net cash provided by investing activities of continuing operations	1,034,609	924,714
Net cash provided by investing activities of discontinued operations	-	10,800
Net cash provided by investing activities	1,034,609	935,514
Financing activities		
Proceeds from notes payable and secured borrowings, net of debt discounts of $72,264 in 2020 and $224,633 in 2019	1,603,651	1,960,761
Repayments on notes payable and secured borrowings	(835,112)	(667,420)
Debt issuance costs	(23,316)	(97,244)
Borrowings on line of credit	1,177,003	1,564,028
Repayments on line of credit	(1,837,820)	(400,755)
Net cash provided by financing activities	84,406	2,359,370
Net change in cash and restricted cash	522,842	(360,541)
Cash and restricted cash		
Beginning of year	1,235,839	1,596,380
End of year*	$ 1,758,681	$ 1,235,839
* Cash and restricted cash at end of year are comprised of the following:		
Cash	$ 1,281,274	$ 760,342
Restricted cash	477,407	475,497
	$ 1,758,681	$ 1,235,839
Supplemental disclosure of cash flow information		
Cash paid for interest	$ 207,208	$ 203,081
Noncash investing and financing activities		
Repayments of lines of credit and notes payable financed through an additional line of credit	$ -	$ 1,479,000
Property and equipment financed through accounts payable	$ 23,208	$ -
Accounts payable satisfied through trade-in of property and equipment	$ 26,296	$ -

The Notes to Consolidated Financial Statements are an integral part of these statements.

Habitat for Humanity Greater Orlando and Osceola County, Inc. and Subsidiary
Consolidated Statement of Functional Expenses
Year Ended June 30, 2020

		Supporting Services			
	Program Services	Fundraising	Management and General	Total Supporting Services	Total
Cost of building materials and supplies sold	$ 3,374,134	$ -	$ -	$ -	$ 3,374,134
Payroll expenses	1,122,983	468,930	746,166	1,215,096	2,338,079
Discounts on mortgages issued	185,122	-	-	-	185,122
Professional fees	48,630	800	159,943	160,743	209,373
Supplies expenses	12,093	1,319	2,231	3,550	15,643
Home repairs and property maintenance	256,370	-	-	-	256,370
Tithes and fees to affiliates	30,000	8,094	-	8,094	38,094
Interest and borrowing expenses	277,898	16,417	43,703	60,120	338,018
Other	70,202	31,667	63,921	95,588	165,790
Utilities	13,596	1,640	4,374	6,014	19,610
Depreciation	37,583	2,996	30,194	33,190	70,773
Promotional expenses	13,923	4,717	1,379	6,096	20,019
Transportation and vehicle	34,219	24	1,948	1,972	36,191
Insurance	27,153	3,417	17,110	20,527	47,680
Equipment lease and maintenance	9,274	-	242	242	9,516
Board/staff development	709	2,710	7,497	10,207	10,916
Printing and postage	14,526	11,732	4,170	15,902	30,428
Closing and mortgage service costs	72,915	-	1,800	1,800	74,715
Telephone and internet	21,186	2,506	6,686	9,192	30,378
Property tax	21,693	-	-	-	21,693
	$ 5,644,209	$ 556,969	$ 1,091,364	$ 1,648,333	$ 7,292,542

The Notes to Consolidated Financial Statements are an integral part of these statements.

Habitat for Humanity Greater Orlando and Osceola County, Inc. and Subsidiary
Consolidated Statement of Functional Expenses
Year Ended June 30, 2019

	Program Services	Supporting Services: Fundraising	Supporting Services: Management and General	Supporting Services: Total Supporting Services	Continuing Operations	Discontinued Operations	Total
Cost of building materials and supplies sold	$ 2,740,827	$ -	$ -	$ -	$ 2,740,827	$ 79,155	$ 2,819,982
Payroll expenses	1,446,485	360,655	606,291	966,946	2,413,431	481,745	2,895,176
Discounts on mortgages issued	737,975	-	-	-	737,975	-	737,975
Rent and other occupancy costs	17,408	-	-	-	17,408	408,275	425,683
Professional fees	37,281	4,839	109,284	114,123	151,404	364	151,768
Supplies expenses	16,499	2,267	3,967	6,234	22,733	1,462	24,195
IT expenses	35,946	4,940	8,642	13,582	49,528	1,195	50,723
Home repairs and property maintenance	347,836	-	-	-	347,836	-	347,836
Tithes and fees to affiliates	31,200	9,706	-	9,706	40,906	-	40,906
Interest and borrowing expenses	268,515	18,840	34,540	53,380	321,895	-	321,895
Other	81,701	14,908	31,499	46,407	128,108	19,251	147,359
Utilities	11,305	514	943	1,457	12,762	46,451	59,213
Depreciation	42,967	4,808	20,258	25,066	68,033	17,576	85,609
Promotional expenses	19,372	51,412	3,726	55,138	74,510	349	74,859
Transportation and vehicle	36,705	6	84	90	36,795	29,760	66,555
Insurance	45,921	1,588	20,091	21,679	67,600	2,078	69,678
Equipment lease and maintenance	22,340	-	-	-	22,340	24	22,364
Board/staff development	6,730	1,850	8,511	10,361	17,091	-	17,091
Printing and postage	1,071	4,087	28,660	32,747	33,818	440	34,258
Closing and mortgage service costs	60,591	-	-	-	60,591	-	60,591
Telephone and internet	3,830	673	7,038	7,711	11,541	1,994	13,535
Property tax	31,196	516	947	1,463	32,659	-	32,659
(Gain) loss on disposal of property and equipment, net	(38,849)	-	-	-	(38,849)	96,610	57,761
	$ 6,004,852	$ 481,609	$ 884,481	$ 1,366,090	$ 7,370,942	$ 1,186,729	$ 8,557,671

The Notes to Consolidated Financial Statements are an integral part of these statements.

1. ORGANIZATION AND PURPOSE

Habitat for Humanity Greater Orlando and Osceola County, Inc. (“Habitat”) (a nonprofit corporation) was incorporated on May 20, 1986 under the laws of the state of Florida. On June 8, 2018, Habitat changed its name to Habitat for Humanity Greater Orlando and Osceola County, Inc. Habitat is an affiliate of Habitat for Humanity International, Inc. (“Habitat International”), a nondenominational Christian nonprofit organization whose purpose is to create decent, affordable housing for those in need and to make decent shelter a matter of conscience with people everywhere. Although Habitat International assists with information resources, training, publications, prayer support and in other ways, Habitat is primarily and directly responsible for its own operations.

On October 20, 2015, Habitat formed a Florida single member limited liability corporation, HFHGO Funding Company I, LLC (“Funding Company”), the sole member of which is Habitat (collectively, the “Organization”). Funding Company was formed for the purpose of entering into certain business transactions related to its mortgage loans on behalf and for the benefit of Habitat.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The Organization prepares its consolidated financial statements under the guidance of Financial Accounting Standards Board (“FASB”) Accounting Statements Codification (“ASC”) 958, *Not-for-Profit Entities*. Under FASB ASC 958, the Organization is required to report information regarding its consolidated financial position and activities according to two classes of net assets: net assets with donor restrictions and net assets without donor restrictions.

Basis of Accounting

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”). Net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Net asset without donor restrictions: Net assets that are not subject to donor-imposed stipulations. These assets may, however, be subject to Board of Directors (“Board”) designation and unavailable for use at management’s discretion.

Net asset with donor restrictions: Net assets that are subject to donor-imposed stipulations. These stipulations either require the Organization to maintain the net asset permanently, generally permitting all or part of the income earned on related assets be used for general or specific purposes, or be met either by the completion of a stipulated action and/or the passage of time. As of June 30, 2020 and 2019, the Organization does not have any assets that are required to be maintained permanently.

Basis of Consolidation

The consolidated financial statements include the accounts of Habitat and its wholly-owned subsidiary, Funding Company. All significant intercompany balances and transactions have been eliminated in the consolidation.

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 of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of support, revenues, and expenses during the reporting period. Actual results could differ from those estimates.

Accounting Pronouncements Adopted in Current Year

Cash Flows

In November 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash ("ASU 2016-18"). ASU 2016-18 requires the inclusion of restricted cash and restricted cash equivalents with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The Organization adopted the provisions of ASU 2016-18 retrospectively as of June 30, 2019, which resulted in the inclusion of the Organization's restricted cash balances along with cash in the Organization's statement of cash flows and separate line items showing changes in restricted cash balances were eliminated from the Organization's statement of cash flows for the year ended June 30, 2019. At June 30, 2019, cash and restricted cash was $1,235,839, which consists of cash of $760,342 and restricted cash of $475,497.

Contributions

In June 2018, the FASB issued Accounting Standards Update No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This standard assists entities in evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional. The Organization implemented the provisions of ASU 2018-08 applicable to contributions received in the accompanying consolidated financial statements under a modified prospective approach basis. Accordingly, there is no effect on net assets in connection with the implementation of ASI 2018-08.

Accounting Pronouncements Issued But Not Yet Adopted

Revenue

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers* ("ASU 2014-09"), which supersedes nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. ASU 2014-09 defines a five step process to achieve this core principle and, in doing so, more judgment and estimates may be required within the revenue recognition process than are required under existing U.S. GAAP.

The standard, as amended, was effective for annual periods beginning after December 15, 2018, using either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients, or (ii) a retrospective approach with the cumulative effect of initially adopting ASU 2014-09 recognized at the date of adoption (which includes additional footnote disclosures). The Organization has elected the provision of ASU 2020-05 that allows the Organization to defer the adoption of ASU 2014-09 for an additional year. As such, ASU 2014-09 will be effective for annual periods beginning after December 31, 2019. The Organization is currently evaluating the impact of its pending adoption of ASU 2014-09 on its consolidated financial statements.

Cash, Cash Equivalents, and Restricted Cash

The Organization considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Restricted cash consists of Board designated amounts held in a separate reserve account maintained to fund operations upon approval of the Board during times of financial hardship.

At times, the Organization had a concentration of credit risk arising from cash deposits at financial institutions in excess of federally insured limits. At June 30, 2020, approximately $1,380,000 of cash, cash equivalents, and restricted cash was uninsured.

Contributions Receivable

Contributions receivable, net of discounts, are unconditional promises to give and are recorded when the promises to give are made. Contributions receivable which are expected to be collected in more than one year are stated at the present value of estimated future receipts. When applicable, the Organization provides an allowance for uncollectible pledges at the time contributions are recorded based on historical write-offs.

Grant Revenue, Grants Receivable and Deferred Revenue

The majority of the Organization’s grants received for home construction are exchange transactions in which each party receives and sacrifices commensurate value. Funds and land received from these exchange transactions are not considered contributions and, as such, are deemed to be earned and reported as revenue when such funds have been expended towards their designated purpose. Grants receivable consists of amounts due under these grants and the Organization considers all amounts to be fully collectible as of June 30, 2020 and 2019. Deferred revenue represents costs associated with undeveloped lots of land (with costs ranging from $14,000 to $20,000) granted to the Organization to be used for home construction. The costs associated with each lot are recognized at the time the completed home on the respective lot is sold. At June 30, 2020 and 2019, deferred revenue included costs associated with 12 and 10 unsold lots, respectively. During fiscal year 2020, the Organization received ten plots (as described above) of land from an affiliated organization for the development of single-family homes in Orange County, Florida. The land has an appraised value of $182,000 and is included in land held for development and deferred revenue at June 30, 2020.

Land Held for Development, Home Inventory and Homes In Process

Land held for development, home inventory and homes in process are stated at lower of cost or fair value and consist of undeveloped land, and completed and in-process homes which have not yet been sold or transferred to homeowners.

The Organization reviews these assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of these assets is measured by a comparison of the carrying amount of an asset to its fair value. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceed the fair value of the assets. Based on this review, there were no impairments recorded on these assets during fiscal years 2020 or 2019.

Property and Equipment

Land is stated at cost; other property and equipment is stated at cost less accumulated depreciation and amortization. Material purchases of property and equipment and significant repairs and additions, which extend the useful life of existing assets, are capitalized in accordance with the Organization's adopted policy. Depreciation and amortization is calculated using the straight-line method for specific assets, using the following estimated useful lives:

Description	Estimated Life (Years)
Building	39
Transportation equipment	5
Fixtures and office equipment	3 to 5
Warehouse equipment	5 to 10
Software	3

Mortgage Loans Receivable

Mortgage loans receivable represent non-interest bearing loans upon the sale of a home and have been discounted based upon prevailing market rates at the inception of the mortgage obligations. The original discount is recorded as discounts on mortgages issued within program services on the consolidated statements of functional expenses at the date the mortgage is originated. Discounts are amortized to revenue using the effective interest method over the lives of the mortgage loans and are recorded as amortization of mortgage loan discounts within revenue and support in the consolidated statements of activities. Mortgage loans receivable are collateralized by the underlying home. The Organization reviews each mortgage for collectability, the fair value of the respective collateralized home, and based on actual and anticipated losses, records an impairment if the carrying value of the mortgage loan exceeds the fair value of the underlying collateral. Mortgages that become over 90 days delinquent are turned over to an attorney for collection. If the homeowner does not cure the default, the Organization forecloses on the home, at which time the mortgage loan receivable is written off and the home is put back into inventory for resale at a value equal to costs to foreclose on the home and the carrying value of the defaulted mortgage.

Impairment of Long-Lived Assets

The Organization reviews its long-lived assets, including mortgage loans receivable, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Based on this review, there were no impairments recorded on these assets during fiscal years 2020 or 2019.

Transfers of Mortgage Loans Receivable

The Organization accounts for transfers of mortgage loans receivable as sales when it has surrendered control over the related assets. Whether control has been relinquished requires, among other things, an evaluation of relevant legal considerations and an assessment of the nature and extent of the Organization's continuing involvement with the mortgage loans receivable transferred. Gains and losses stemming from transfers reported as sales are included in net gain on sale of mortgage loans receivable in the accompanying consolidated statements of activities. Assets obtained and liabilities incurred in connection with transfers reported as sales, if any, are initially recognized in the consolidated statements of financial position at fair value. There were no transfers of mortgage loans receivable that qualified as sales during the years ended June 30, 2020 and 2019.

Transfers of mortgage loans receivable that do not qualify for sale accounting are reported as secured borrowings. Accordingly, the related assets remain on the Organization's consolidated statements of financial position and continue to be reported and accounted for as if the transfer had not occurred. Cash proceeds from these transfers are reported as liabilities, with attributable interest expense recognized over the life of the related transactions. During the years ended June 30, 2020 and 2019, the Organization transferred mortgage loans receivable that qualified as secured borrowings (see Note 8).

Debt Issuance Costs

Debt issuance costs are amortized using the effective interest method over the term of the debt into interest expense. Upon the early extinguishment of the related debt, any unamortized deferred financing costs are immediately expensed and included in change in net assets.

Debt issuance costs related to a recognized debt liability are presented in the consolidated statement of financial position as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The Organization is therefore presenting deferred financing costs net against notes payable on the accompanying consolidated statements of financial position.

Sales to Homeowners

Sales to homeowners are recorded at the gross mortgage amount plus down payment received. Noninterest bearing mortgages have been discounted based upon prevailing market rates for low income housing at the inception of the mortgages.

In-Kind Contributions

During fiscal years 2020 and 2019, the Organization received $771,275 and $514,267, respectively, of donated construction materials and related labor for its home building projects. In addition, the Organization received $48,097 of donated appliances installed in its home inventory. These amounts were recorded as in-kind contributions in the accompanying consolidated statements of activities and either to homes in process on the accompanying consolidated statements of financial position or cost of building materials and supplies sold in the accompanying consolidated statements of functional expenses depending on the nature of the item.

During fiscal years 2020 and 2019, the Organization also received in-kind contributions for fundraising events in the amounts of $4,490 and $34,212, respectively, which are recorded at estimated fair value of items and services donated and are included in in-kind contributions in the accompanying consolidated statements of activities and promotional expenses in the consolidated statements of functional expenses.

During fiscal year 2019, the Organization received in-kind contributions of undeveloped parcels of land in the amount of $98,400, which are recorded at estimated fair value and are included in in-kind contributions in the accompanying consolidated statements of activities and land held for development in the accompanying consolidated statements of financial position.

Thrift Shop Sales

The Organization previously operated two retail thrift stores that specialized in selling surplus new and used building and home improvement materials, appliances and furniture to the public. The thrift stores received donated goods and materials from businesses, contractors, individuals and other organizations which were recorded as thrift shop revenue at the time of sale when the cash was received. Thrift shop operations were discontinued during the year ended June 30, 2019 (see Note 14).

Advertising
Advertising costs are expensed as incurred. Advertising costs totaled $20,019 and $74,859 for the years ended June 30, 2020 and 2019, respectively, and are included in promotional expenses on the consolidated statements of functional expenses.

Income Taxes
Habitat is exempt from Federal income tax under provisions of Section 501(c)(3) of the Internal Revenue Code and from state income taxes under similar provisions of the Florida Income Tax Code. Funding Company was incorporated under the Florida Revised Limited Liability Company Act and is considered a disregarded entity for federal and state income tax purposes. Therefore, no provision for income taxes has been included in the accompanying consolidated financial statements.

The Organization identifies and evaluates uncertain tax positions, if any, and recognizes the impact of uncertain tax positions for which there is a less than more-likely-than-not probability of the position being upheld when reviewed by the relevant taxing authority. Such positions are deemed to be unrecognized tax benefits and a corresponding liability is established on the consolidated statements of financial position. The Organization has not recognized a liability for uncertain tax positions. If there were an unrecognized tax benefit, the Organization would recognize interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses.

Risks and Uncertainties
Management is currently evaluating the impact of the COVID-19 pandemic and has concluded that while it is reasonably possible that the virus could have a negative impact on the Organization’s financial position and changes in its net assets, the specific impact is not readily determinable as of the date of these consolidated financial statements. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Reclassifications
Certain amounts included in the 2019 financial statements have been reclassified to conform with the 2020 presentation. These reclassifications had no effect on net assets or changes in net assets.

3. FAIR VALUE MEASUREMENTS

FASB ASC 820, *Fair Value Measurements and Disclosures*, 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 are described as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the 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 the full term of the asset or liability.

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.

Mortgage loans receivable are recorded at their net present value using a risk-free interest rate available on U.S. Treasury issues at the date the home was sold with an equivalent term equal to the term of the mortgage, which approximates fair value.

The Organization has no Level 1 or Level 3 financial assets or liabilities. The Organization's Level 2 financial assets include mortgage loans receivable (see Note 6).

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

4. CONTRIBUTIONS RECEIVABLE, NET

Contributions receivable, net of discounts, at June 30, 2020 and 2019, are as follows:

	2020	2019
Amounts due in		
Less than one year	$ 29,000	$ 30,050
One to five years	91,000	-
Contributions receivable, net	$ 120,000	$ 30,050

U.S. GAAP requires unconditional pledge contributions due in more than one year to be discounted to net present value using prevailing interest rates (1% at June 30, 2020). At June 30, 2020, the Organization has determined that the effect of discounting these pledge receivables would not have a material impact on the results of operations and accordingly, has recorded the pledges at their net carrying value.

5. PROPERTY AND EQUIPMENT, NET

The components of property and equipment at June 30, 2020 and 2019, are as follows:

	2020	2019
Building	$ 1,418,056	$ 1,463,638
Land	289,250	289,250
Transportation equipment	94,816	111,089
Fixtures and office equipment	54,077	54,077
Warehouse equipment	83,038	35,149
Software	13,937	8,835
	1,953,174	1,962,038
Accumulated depreciation and amortization	(199,526)	(152,950)
Total property and equipment, net	$ 1,753,648	$ 1,809,088

Depreciation and amortization expense on property and equipment totaled $70,773 and $85,609 for the years ended June 30, 2020 and 2019, respectively.

6. MORTGAGE LOANS RECEIVABLE, NET OF DISCOUNTS

Mortgage loans receivable consist entirely of non-interest bearing mortgage notes, secured by residential real estate, payable in monthly installments with maturities ranging from 15 to 40 years. These mortgages are originated through the Organization's home building program.

The amounts presented in the consolidated statements of financial position are net of unamortized discounts arising from imputed interest at June 30, 2020 and 2019, as follows:

	2020	2019
Mortgages receivable (face value)	$ 16,254,477	$ 16,495,370
Unamortized discounts	(4,330,507)	(4,288,930)
Mortgage loans receivable, net of discounts	$ 11,923,970	$ 12,206,440

Contractual maturities of mortgage loans receivable at June 30, 2020 are as follows:

2021	$ 1,445,640
2022	1,429,512
2023	1,412,424
2024	1,396,687
2025	1,359,421
Thereafter	9,210,793
	$ 16,254,477

7. LINES OF CREDIT

On August 25, 2018, the Organization entered into an unsecured revolving line of credit with a bank which originally provided for borrowings up to $2,000,000 at the 1-month LIBOR plus 3%, subject to a floor of 4.75% (4.75% at June 30, 2020). Interest-only payments are due monthly on the outstanding principal balance. The line of credit originally matured on August 25, 2018, and was modified to mature in August 2020. The renewal restricts borrowings to $1,500,000 for the life of the $3,000,000 line of credit described below. At June 30, 2020 and 2019, the outstanding balance on the line of credit was $507,420 and $405,000, respectively. Subsequent to year end, the balance of this line of credit was renewed (see Note 17).

On August 29, 2018, the Organization entered into a non-revolving line of credit with a bank for up to $3,000,000, of which $1,500,000 was used to refinance the original purchase of certain parcels of land with U.S. Development of Orlando, Inc. and $1,500,000 was designated for development financing to construct single family homes and a community clubhouse on that land. On September 26, 2019, the agreement was amended and no longer permits additional borrowings. Under the amended terms, interest accrues at a rate equal to 1-month LIBOR plus 2.50%, with a floor of 3.50% (3.50% of June 30, 2020) and is due monthly. A initial principal curtailment of $111,245 was paid upon closing of the $550,000 revolving line of credit (described below) and additional principal curtailments ranging from $76,490 to $114,735 are due quarterly with a final payment of all unpaid principal and interest due July 2022. The line matures in August 29, 2022. The line of credit is secured by the related land. At June 30, 2020 and 2019, the outstanding balance on the line of credit was $1,454,350 and $2,027,677, respectively.

On September 21, 2018, the Organization entered into a revolving promissory note with Orange County Housing Finance Authority for up to $2,000,000 to be used for construction of single family homes built for low and very low income homebuyers. Interest accrues at a fixed rate of 1.5% per annum. Commencing October 1, 2018, monthly interest-only payments are due and principal payments of $80,000 will be due upon the closing of each home. The note matures at the earliest of the date at which the last home under the agreement is sold or September 21, 2021. The note is secured by the land and homes to be constructed and the completed but not yet sold homes. At June 30, 2020 and 2019, the outstanding balance on the note was $160,000 and $615,351, respectively.

On September 26, 2019, the Organization entered into a revolving line of credit with a financial institution for up to $550,000. Interest is payable monthly commencing on October 26, 2019 at a rate of 1-month LIBOR plus 2.50%, with a floor of 3.50% (3.50% at June 30, 2020). The note matures on September 26, 2022 at which time the full balance of all unpaid principal and interest becomes due. The note is secured by real property in Orange County, Florida. At June 30, 2020, the outstanding balance on the note was $77,595.

On January 6, 2020, the Organization entered into a revolving line of credit with an institution for up to $500,000 for the purpose of constructing single family homes. Interest accrues at a fixed rate of 4.75% and is due monthly. The remaining unpaid principal and interest are due at maturity on January 6, 2022. The line of credit is secured by the land and buildings owned by the Organization. At June 30, 2020, the outstanding balance on the note was $187,846.

The line of credit agreements require certain financial covenants be met. The Organization was in compliance with these financial covenants as of and for the years ended June 30, 2020 and 2019.

8. NOTES PAYABLE AND SECURED BORROWINGS, NET

PNC Community Development Company, LLC

On October 22, 2015, Funding Company and PNC Community Development Company, LLC ("PNC") entered into a Note Purchase Agreement whereby Funding Company will sell to PNC a note at a purchase price equal to the present value of the scheduled principal payments of twenty-four outstanding mortgages held by Habitat discounted at a rate of 3% per year. Funding Company acquired from Habitat all of its rights, title and interest in the related mortgages. In order to finance the purchase of the acquisition of these mortgages from Habitat, Funding Company entered into a Secured Note ("Note 1") with PNC in the amount of $1,364,929 whereby it received cash in the amount of $1,059,131, which was subsequently transferred to Habitat. On March 31, 2017, Note 1 was amended to remove three mortgages and add sixteen. This modification resulted in additional cash being paid to Funding Company, which brought the principal amount borrowed to $2,279,086. The difference of $725,372 between the cash proceeds and the modified Note 1 amount was recorded as a discount and will be amortized over the life of Note 1. Installment payments on Note 1 are due monthly in accordance with an amortization schedule with the entire principal balance due and payable on March 1, 2047. As security for Note 1, Funding Company pledged all of its rights, title and interest in the related mortgage loans. As of June 30, 2020 and 2019, the outstanding balance due on Note 1, net of unamortized debt discounts of $646,790 and $659,759, respectively, is $1,218,261 and $1,292,052, respectively.

On March 31, 2017, Funding Company and PNC entered into an additional Note Purchase Agreement whereby Funding Company will sell to PNC a note at a purchase price equal to the present value of the scheduled principal payments of thirty-one outstanding mortgages held by Habitat discounted at a rate of 3% per year. Funding Company acquired from Habitat all of its rights, title and interest in the related mortgages. In order to finance the purchase of the acquisition of these mortgages from Habitat, Funding Company entered into a Secured Note ("Note 2") with PNC in the amount of $2,170,717 whereby it received cash in the amount of $1,615,683, which was subsequently transferred to Habitat. The difference of $555,034 between the cash proceeds and Note 2 amount was recorded as a discount and will be amortized over the life of Note 2. Installment payments on Note 2 are due monthly in accordance with an amortization schedule with the entire principal balance due and payable on March 1, 2047. As security for Note 2, Funding Company pledged all of its rights, title and interest in the related mortgage loans. As of June 30, 2020 and 2019, the outstanding balance due on Note 2, net of unamortized debt discounts of $494,906 and $510,247, respectively, is $1,272,453 and $1,377,641, respectively.

Notes 1 and 2 were accounted for as secured borrowings in accordance with Accounting Standards Codification Topic 860, *Transfers and Servicing*.

IberiaBank

On October 20, 2017, Habitat entered into a Loan Purchase Agreement ("Agreement") with IberiaBank ("Iberia"), whereby Habitat will sell certain residential mortgage loans. Each loan shall be secured by a mortgage creating a first lien or, if approved by Iberia, a second lien on a residential dwelling. In accordance with the Agreement, all loans are sold without recourse, however, if a loan sold under the Agreement defaults after the closing date and becomes a nonperforming loan, as defined, Habitat shall repurchase the loan at a repurchase price, as defined, and Iberia will be required to purchase another loan. On the same date, the parties entered into a Loan Purchase Commitment Letter whereby Habitat sold eighteen loans to Iberia for $1,469,333. As of the closing date, these loans had an aggregate unpaid principal balance of $1,728,628. On April 17, 2018, the parties entered into a second Loan Purchase Commitment Letter whereby Habitat sold nine loans to Iberia for $728,800. As of the closing date, these loans had an aggregate unpaid principal balance of $827,627. The difference between the cash proceeds and the aggregate unpaid principal balance of both loans of $358,122 was recorded as a debt discount and will be amortized over the life of the mortgage loans sold. Installment payments are due monthly in accordance with the amortization schedules of the underlying mortgage loans sold.

On various dates during the years ended June 30, 2020, the Organization entered into three additional Loan Purchase Agreements with Iberia for the sale of eight residential mortgage loans for proceeds totaling $868,826. Total aggregate unpaid principal balances related to these mortgages was $965,362 as of the closing date. The difference between the cash proceeds and the aggregate unpaid principal balance of the loans of $96,536 was recorded as a debt discount and will be amortized over the life of the loans sold. Installment payments are due monthly in accordance with the amortization schedules of the underlying mortgage loans sold. Also during fiscal year 2020, the Organization assigned two mortgages with total unpaid principal balances of $176,745 to Iberia in exchange for certain nonperforming mortgages with total unpaid principal balances of $174,798 and $10,315 in cash consideration. The difference of $8,368 was recorded as a reduction to the mortgage discount in the accompanying statement of financial position.

On various dates during the years ended June 30, 2019, the Organization entered into four additional Loan Purchase Agreements with Iberia for the sale of eighteen residential mortgage loans for proceeds totaling $1,867,990. Total aggregate unpaid principal balances related to these mortgages was $2,092,623 as of the closing date. The difference between the cash proceeds and the aggregate unpaid principal balance of the loans of $224,633 was recorded as a debt discount and will be amortized over the life of the loans sold. Installment payments are due monthly in accordance with the amortization schedules of the underlying mortgage loans sold.

As of June 30, 2020 and 2019, the outstanding balance due to Iberia, net of unamortized debt discounts of $586,601 and $540,341, respectively, is $4,342,404 and $3,812,791, respectively.
In connection with the Agreement, the parties also entered into a Loan Servicing Agreement, whereby Habitat will continue to be responsible for servicing the loans sold. Habitat will receive a servicing fee of $10 per loan per month, which will be netted against monthly loan payments collected by Habitat and remitted to Iberia. Servicing fees for the years ended June 30, 2020 and 2019 were immaterial.

The transactions with Iberia were accounted for as secured borrowings in accordance with Accounting Standards Codification Topic 860, *Transfers and Servicing*.

LC Realty Associates, LLC

On July 25, 2017, the Organization entered into two separate promissory notes with LC Realty Associates, LLC to finance the purchase of a certain parcel of land and a building. The first note of $1,100,000 requires monthly payments of $7,881, accrues interest at a fixed rate of 6% per annum, and matures July 25, 2037. The second note of $350,000 requires monthly payments of $2,508, accrues interest at a fixed rate of 6% per annum, and matures July 25, 2037. The outstanding balance on these notes at June 30, 2020 and 2019, was $1,326,553 and $1,370,192, respectively. These notes are secured by the Organization's land and building.

Paycheck Protection Program

In May 2020, the Organization secured a SBA loan from an institution under the Payment Protection Program in the amount of $461,544. The loan accrues interest at 1% annually and matures in May 2022. Payments of interest are due monthly commencing February 2021 and the outstanding principal and interest may qualify for full forgiveness if the funds are used for the approved purposes which include certain payroll and administrative costs. At June 30, 2020, management believes it will qualify for full forgiveness.

At June 30, 2020, future maturities on the lines of credit, notes payable, and secured borrowings are as follows:

	Lines of Credit	Notes Payable	Secured Borrowings	Total
2021	$ 1,081,095	$ 46,096	$ 650,607	$ 1,777,798
2022	806,786	510,482	650,607	1,967,875
2023	499,330	51,957	650,607	1,201,894
2024	-	55,162	650,607	705,769
2025	-	58,564	650,607	709,171
Thereafter	-	1,065,836	5,308,380	6,374,216
Total future maturities	2,387,211	1,788,097	8,561,415	12,736,723
Less unamortized discounts	-	-	(1,728,297)	(1,728,297)
Less unamortized loan costs	-	(62,378)	-	(62,378)
	$ 2,387,211	$ 1,725,719	$ 6,833,118	$ 10,946,048

9. OPERATING LEASES

The Organization entered into operating lease agreements for thrift store space and equipment with original expiration dates in November 2019. These lease agreements were terminated during the year ended June 30, 2019 in connection with the closing of the thrift stores (see Note 14). Rent expense under these agreements was approximately $333,000 for the year ended June 30, 2019 and is included in rent and other occupancy costs in the accompanying consolidated statement of functional expenses. There was no rent expense for the year ended June 30, 2020.

10. TRANSACTIONS WITH HABITAT INTERNATIONAL

The Organization remits a portion of its revenues to Habitat International, its affiliate, as further discussed in Note 1. These funds are used to construct homes in economically depressed areas around the world, and therefore these amounts are included as tithes and fees to affiliates within the Organization's program services on the consolidated statements of activities. For the years ended June 30, 2020 and 2019, the Organization contributed $5,000 and $6,200 to Habitat International. Stewardship and sustainability fees and other costs paid to Habitat International totaled approximately $33,100 and $34,700 for the years ended June 30, 2020 and 2019, respectively. The Organization also receives donations from Habitat International, which were $10,095 and $14,562 for the years ended June 30, 2020 and 2019, respectively, and are included in contributions on the consolidated statements of activities.

11. FUNCTIONAL ALLOCATION OF EXPENSES

The consolidated statements of functional expenses present expenses by function and natural classification. Expenses directly attributable to a specific functional area are reported as expenses of those functional areas. A portion of general and administrative costs that benefit multiple functional areas (indirect costs) have been allocated across program and supporting services based on estimated time spent by employees involved with those areas. Other general and administrative expenses, including depreciation and amortization and rent are allocated based on employee head count and estimated square footage prorated compared to total space used.

12. NET ASSETS WITHOUT DONOR RESTRICTIONS

The Organization's net assets without donor restrictions are comprised of undesignated amounts to be used for program and operating expenditures at management's discretion and Board designated amounts of $477,407 and $475,497 at June 30, 2020 and 2019, respectively, which may not be spent by management without the approval of the Board of Directors. The Board designated amounts were established as a reserve account to fund operations upon approval of the Board during times of financial hardship.

13. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of the following at June 30, 2020 and 2019:

	2020	2019
Contributions due in future periods	$ 120,000	$ 30,050
Contributions restricted by purpose		
Financial literacy	-	40,000
Homeowner education	-	12,500
Home construction	-	193,839
Net assets with donor restrictions	$ 120,000	$ 276,389

14. DISCONTINUED OPERATIONS

On November 15, 2018, the Board of Directors passed a resolution to close the Organization's thrift shops during fiscal year 2019 and cease its retail operations. The assets and liabilities related to the thrift shops have been included within the consolidated statements of financial position as assets and liabilities of discontinued operations as of June 30, 2019. The results of thrift shop operations have been included within the line-item labeled change in net assets from discontinued operations within the consolidated statement of activities for the year ended June 30, 2019. There were no assets or liabilities from discontinued operations at June 30, 2020 and there were no results of operations from discontinued operations for the year ended June 30, 2020.

The following table shows the major classes of assets and liabilities of the Organization's discontinued operations as of June 30, 2019:

Other assets	$ 46,581
Assets of discontinued operations	$ 46,581
Accounts payable	$ 20,412
Accrued expenses	24,000
Liabilities of discontinued operations	$ 44,412

The following table shows the major classes of the Organization's discontinued operations for the year ended June 30, 2019:

Thrift shop sales	$ 605,874
Other income	3,425
Total revenue	609,299
Operating expenses	(1,186,729)
Net loss on disontinued operations	$ (577,430)

For the year ended June 30, 2019, operating expenses from discontinued operations includes depreciation and amortization of $17,576.

15. FINANCIAL ASSETS AND LIQUIDITY RESOURCES

The Organization's financial assets available within one year of the consolidated statements of financial position date for general expenditures at June 30, 2020 and 2019 are as follows:

	2020	2019
Cash, cash equivalents, and restricted cash	$ 1,758,681	$ 1,235,839
Grants and contributions receivable	202,916	97,936
Total financial assets available within one year	1,961,597	1,333,775
Less: Amounts unavailable for general expenditures within one year		
Donor restricted for specific purposes	(120,000)	(276,389)
Board designated for operating reserves	(477,407)	(475,497)
Total financial assets available to management for general expenditures within one year	$ 1,364,190	$ 581,889

As part of the Organization's liquidity management, it has a policy to structure its financial assets according to their nearness of conversion to cash and liabilities according to the nearness of their maturity and resulting use of cash. Additionally, the Organization has access to revolving credit lines as described in Note 7. Amounts due on long-term debt obligations have not been reflected in the above table.

16. EMPLOYEE BENFIT PLAN

The Organization has a qualified 403(b) savings plan for all eligible employees. Employees may contribute to the plan from 1% to 92% of their compensation, as defined. The Organization is permitted to make discretionary non-elective and discretionary matching contributions. Non-elective and matching contributions made by the Organization for the years ended June 30, 2020 and 2019, totaled $42,775 and $67,224, respectively, and are included in payroll expenses in the accompanying consolidated statements of functional expenses.

17. SUBSEQUENT EVENTS

Subsequent events have been evaluated through December 21, 2020, the date the consolidated financial statements were available to be issued. Based upon this evaluation, other than disclosed below, the Organization has determined that no other subsequent events have occurred which require adjustment to or disclosure in the consolidated financial statements.

In August 2020, the Organization renewed one of its lines of credit for a maximum indebtedness of $2,000,000 (see Note 7). Of this amount, $507,420 of an existing line of credit was outstanding as of June 30, 2020, and the additional $1,492,580 was available to be borrowed to fund the Organization's operations. Interest will accrue monthly at the 1-month LIBOR plus 3%, with a floor of 4.75%. Interest only payments are due monthly with the entire principal balance due at maturity in December 2021.