

**INDIAN RIVER COUNTY
HABITAT FOR HUMANITY, INC.
and Subsidiary**

**Consolidated Financial Statements
with
Independent Auditors' Report**

June 30, 2019
(With Corresponding Totals for 2018)

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KMETZ·ELWELL·GRAHAM & ASSOCIATES, PLLC
Certified Public Accountants

Independent Auditors' Report

To the Board of Directors
Indian River County Habitat for Humanity, Inc.

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the Indian River County Habitat for Humanity, Inc. of Vero Beach, Florida and Subsidiary, which comprise the consolidated statement of financial position as of June 30, 2019, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

To the Board of Directors
Indian River County Habitat for Humanity, Inc.
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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 Indian River County Habitat for Humanity, Inc. as of June 30, 2019, and the changes in its consolidated net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Indian River County Habitat for Humanity, Inc.'s 2018 financial statements, and our report dated August 28, 2018, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Kmetz, Elwell, Graham & Associates

Kmetz, Elwell, Graham & Associates, PLLC
Certified Public Accountants

August 23, 2019



Indian River County Habitat for Humanity, Inc.
Consolidated Statement of Financial Position
June 30, 2019
(With corresponding totals as of June 30, 2018)

	2019	2018
Assets		
Current Assets:		
Cash and cash equivalents	\$ 2,619,482	\$ 954,717
Current portion of mortgage loans	277,124	246,642
Current portion of pledges receivable	10,000	28,500
Costs of homes under construction	441,493	468,673
Inventory	651,781	632,757
Other current assets	69,425	40,826
Total current assets	4,069,305	2,372,115
Other Assets:		
Restricted cash	322,694	352,135
Non-interest bearing mortgage loans, net of discount	5,176,504	4,607,308
Property and equipment, net	4,676,318	4,877,251
Land held for development	2,363,547	2,159,773
Other assets	2,624	3,853
Total other assets	12,541,687	12,000,320
Total assets	\$16,610,992	\$14,372,435
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 320,530	\$ 297,116
Escrow and warranty reserve	322,694	352,135
Line of credit	-	99,932
Current portion of notes payable	198,302	106,235
Total current liabilities	841,526	855,418
Long-Term Liabilities:		
SHOP notes payable	97,239	112,560
Note Payable	3,881,651	1,885,153
Less current portion of notes payable	(198,302)	(106,235)
Total long-term liabilities	3,780,588	1,891,478
Total liabilities	4,622,114	2,746,896
Net Assets:		
Net assets without donor restrictions:		
Designated	1,669,855	1,875,749
Undesignated	10,118,133	9,614,805
Total Net assets without donor restrictions	11,787,988	11,490,554
Net assets with donor restrictions	200,890	134,985
Total net assets	11,988,878	11,625,539
Total liabilities and net assets	\$16,610,992	\$14,372,435

See accompanying notes to financial statements.



Indian River County Habitat for Humanity, Inc.
Consolidated Statement of Activities and Changes in Net Assets
For the Year ended June 30, 2019
(With corresponding totals as of June 30, 2018)

	2019			2018
	Without Donor Restrictions	With Donor Restrictions	Total	All Funds Combined
Public Support and Revenue				
Contributions	\$ 1,136,990	\$ 151,864	\$ 1,288,854	\$ 2,320,207
Grants	415,364	15,000	430,364	315,026
Transfers to homeowners	2,035,583	-	2,035,583	2,007,418
ReStore revenue	2,000,168	-	2,000,168	1,822,553
Mortgage loan discount amortization	406,131	-	406,131	359,673
Mortgage loan discount on loans sold	36,769	-	36,769	51,351
Fundraising and other income	659,591	-	659,591	578,625
Gain on sale of assets	14,842	-	14,842	67,024
Net assets released from restriction	100,959	(100,959)	-	-
Total public support and revenue	6,806,397	65,905	6,872,302	7,521,877
Expenses				
Family support services	4,782,133	-	4,782,133	4,563,835
ReStore	1,016,370	-	1,016,370	1,144,312
Fundraising and development	501,682	-	501,682	509,352
Management and general	208,778	-	208,778	209,075
Total program and supporting services	6,508,963	-	6,508,963	6,426,574
Increase in net assets	297,434	65,905	363,339	1,095,303
Net assets, beginning of year	11,490,554	134,985	11,625,539	10,530,236
Net assets, end of year	\$ 11,787,988	\$ 200,890	\$ 11,988,878	\$ 11,625,539

See accompanying notes to financial statements.



Indian River County Habitat for Humanity, Inc.
Consolidated Statement of Functional Expenses
For the Year ended June 30, 2019
(With corresponding totals as of June 30, 2018)

	2019			2018	
	Program Services		Supporting Services		All Funds Combined
	Family Support, Education and Construction	ReStore	Fundraising	Management and General	Total
Salaries and wages	\$ 702,592	\$ 481,622	\$ 222,674	\$ 139,404	\$ 1,546,292
Payroll taxes and benefits	194,796	110,430	46,805	26,567	378,598
Total payroll	897,388	592,052	269,479	165,971	1,924,890
Advertising	2,050	57,842	765	-	60,657
Cost of homes transferred	1,876,630	-	-	-	1,876,630
Other construction costs	388,610	-	-	-	388,610
Depreciation	24,553	141,706	9,746	5,062	181,067
Discount on mortgages	1,000,493	-	-	-	1,000,493
Insurance	28,923	41,745	9,470	4,922	85,060
Interest	11,832	-	-	-	11,832
Office expenses and miscellaneous	128,984	54,981	49,224	19,515	252,704
Postage and printing	2,275	87	10,582	427	13,371
Professional services	95,420	22,102	15,955	2,727	136,204
Public relations	-	-	11,759	-	11,759
Rent expense	3,666	26,720	2,042	756	33,184
Repairs and maintenance	26,010	31,517	4,352	2,282	64,161
Telephone	3,196	3,466	763	1,640	9,065
Tithe to International	251,244	-	-	-	251,244
Travel	5,129	-	2,574	3,445	11,148
Property taxes	5,166	6,189	1,481	769	13,605
Utilities	12,553	33,163	2,431	1,262	49,409
Volunteer recognition	18,011	240	4,303	-	22,554
Direct fundraising expense	-	4,560	106,756	-	111,316
Total expenses	\$ 4,782,133	\$ 1,016,370	\$ 501,682	\$ 208,778	\$ 6,508,963
					\$ 6,426,574

See accompanying notes to financial statements.



Indian River County Habitat for Humanity, Inc.
Consolidated Statement of Cash Flows
For the Year ended June 30, 2019
(With corresponding totals as of June 30, 2018)

	2019	2018
Cash flows from operating activities:		
Increase in net assets	\$ 363,339	\$ 1,095,303
Adjustments to reconcile increase in net assets to net cash flows provided by (used for) operating activities:		
Transfers to homeowners, net of discount	1,015,813	1,002,177
Depreciation	181,067	195,144
Mortgage loan discount	(442,900)	(411,024)
Gain on sale of assets	(14,842)	(67,024)
In-kind contributions	(126,762)	(104,590)
(Increase) decrease in:		
Restricted cash	29,441	66,210
Grant, pledges and other receivables	18,500	22,395
Land held for development and cost of homes under construction	(1,883,232)	(1,269,846)
Other assets	(23,207)	6,082
Increase (decrease) in:		
Accounts payable, escrow and accrued expenses	(6,027)	(68,400)
Net cash provided by (used for) operating activities	(888,810)	466,427
Cash flows from investing activities		
Purchase of fixed assets	(21,414)	(846,168)
Proceeds from sale of mortgage loans	-	175,300
Proceeds from sale of assets	35,118	22,376
Mortgage payments received	658,626	558,665
Net cash provided by (used for) investing activities	672,330	(89,827)
Cash flows from financing activities:		
Proceeds from note payable	2,079,697	-
Payments on note payable	(83,199)	(74,747)
Proceeds from SHOP notes and lines of credit	16,250	39,454
Payments on SHOP notes and lines of credit	(131,503)	(38,695)
Net cash provided by (used for) financing activities	1,881,245	(73,988)
Net increase in cash	1,664,765	302,612
Cash, beginning of year	954,717	652,105
Cash, end of year	\$ 2,619,482	\$ 954,717
Supplemental disclosure of cash flow information:		
Interest paid	\$ 11,832	\$ 7,204
Supplemental disclosure of noncash activities:		
Issuance of non-interest bearing mortgage loans	\$ 1,861,479	\$ 1,725,267
Discount on non-interest bearing mortgage loans	\$ (557,762)	\$ (537,507)

See accompanying notes to financial statements.



Indian River County Habitat for Humanity, Inc.

Notes to Financial Statements

For the Year ended June 30, 2019

Note 1 – Nature of Organization and Summary of Significant Accounting Policies

Organization and Purpose

The Indian River County Habitat for Humanity, Inc. (“Habitat”) is a Florida nonprofit organization that was incorporated on March 19, 1990. Habitat is an affiliate of Habitat for Humanity International, Inc., 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 for Humanity International, Inc. assists with information resources, training, publications, prayer support and in other ways, Habitat is primarily and directly responsible for its own operations.

On June 21, 2017, Habitat filed articles of organization with the State of Florida to form its wholly owned subsidiary IRCHFH Funding Company 1, LLC. The Company’s purpose is to acquire and hold mortgage loans and related documents to comply with the terms of any note purchase agreement between the Company and any financial institution. As a single member LLC, the entity is disregarded for purposes of the Internal Revenue Code.

Basis of Accounting

The accompanying financial statements have been prepared in accordance with generally accepted accounting principals’, using the accrual basis of accounting.

Basis of Presentation

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Unconditional promises to give are recognized as revenue when the underlying promises are received by Habitat. Support that is restricted by the donor is reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in net assets with donor imposed restrictions. When a restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Expenses are reported as decreases in net assets without donor imposed restrictions. Gains and losses on other assets or liabilities are reported as increases or decreases in net assets without donor imposed restrictions unless their use is restricted by explicit donor stipulation or by grantor agreement.

Cash Equivalents

Cash and cash equivalents include cash and investments that are readily convertible into cash and have original maturities of three months or less. Amounts held in individual financial institutions may exceed FDIC insured limits. Habitat has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk related to cash.

Inventory

Inventory consists of donated merchandise to the Restore, primarily household items and construction materials, held for sale and valued at estimated sale prices.

Indian River County Habitat for Humanity, Inc.

Notes to Financial Statements (continued)

Note 1 – Nature of Organization and Summary of Significant Accounting Policies (continued)

Property and Equipment

Property and equipment acquisitions greater than \$500 are capitalized and are stated at cost. Donated property and equipment is recorded at the fair market value at the date of the gift. Depreciation is provided on a straight-line basis over the estimated useful life of the asset, which ranges from 3 - 40 years.

Land Held for Development

Land held for development is recorded at cost and includes land under development, developed lots, and carrying costs incurred during the development period. Real estate assets are evaluated for impairment if impairment indicators are present. An impairment write-down to fair value occurs when management believes that events or changes in circumstances indicate that its carrying amount may not be recoverable. An impairment loss was recorded as of June 30, 2015 as disclosed further in Note 15. No additional impairment was recorded for the year ended June 30, 2019.

Land Available for Sale

Real estate assets are evaluated for impairment if impairment indicators are present. An impairment write-down to fair value less costs to sell occurs only if the estimated future undiscounted net cash flows from the real estate inventories are less than the carrying amount.

Escrow and Warranty Reserves

Habitat services certain mortgages on homes whereby cash amounts are received from homeowners in escrow for insurance, property taxes, and association maintenance. In addition, each home carries a one-year warranty and management has established reserves to cover estimated potential costs. Escrow funds and warranty reserves are used to pay costs as they become due. At June 30, 2019, restricted cash of \$322,694 is held to cover these reserves.

Revenue Recognition

- **Unconditional Promises to Give**

Unconditional promises to give (pledges), e.g., pledged capital campaign contributions, are recognized as revenue and as assets in the year the pledge is received. Unconditional promises to give that are scheduled to be collected in the succeeding twelve months are reflected as current promises to give and are recorded at their net realizable value. Unconditional promises to give that are scheduled to be collected beyond the succeeding twelve months are reflected as long-term promises to give and are recorded at the present value of their net realizable value. Management considers the unconditional promises receivable at year-end to be fully collectible, therefore, an allowance for uncollectible promises has not been recorded.

- **Restore**

Restore revenue includes the revenue collected on merchandise sold.

Indian River County Habitat for Humanity, Inc.

Notes to Financial Statements (continued)

Note 1 – Nature of Organization and Summary of Significant Accounting Policies (continued)

Revenue Recognition (continued)

- **Transfers to Homeowners**

Transfers to homeowners are recorded at stipulated values that are comparable to market values, less the face value of second mortgages held (see Note 12). Non-interest bearing mortgages have been discounted based upon prevailing market rates for low income housing at the inception of the mortgages. Utilizing a straight-line basis, this discount is recognized as interest income over the term of the mortgage.

Contributed Services

Habitat receives a significant amount of donated services from unpaid volunteers who assist in fund-raising, administration and program services. However, these amounts have not been recognized in the accompanying financial statements because the criteria for recognition of such volunteer effort under ASC 958-605-25-16 have not been satisfied.

Functional Allocation of Expenses

The cost of providing the various programs and other activities has been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Such allocations are determined by management on an equitable basis.

The significant expenses that are allocated include the following:

<u>Expense</u>	<u>Method of Allocation</u>
President's Salary and benefits	Time and Effort
Repair & Maintenance	Full Time Equilivent
Utilities	Full Time Equilivent
Office expenses	Full Time Equilivent

Income Tax Status

Habitat is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code under a group exemption letter granted to Habitat for Humanity International by the Internal Revenue Service.

Use of Estimates

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

Prior Period Information

The financial statements include certain prior year corresponding totals intended to be read only in relation to the current period presentation. The corresponding information was derived from Habitat's audited financial statements for the year ended June 30, 2018, but herein, does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. The prior year corresponding totals may also reflect certain reclassifications of amounts to conform to current year presentations.

Indian River County Habitat for Humanity, Inc.

Notes to Financial Statements (continued)

Note 2 – New Accounting Pronouncement

On August 18, 2016 the FASB issued ASU 2016-14, Not-for-Profit Entities (topic 958) Presentation of Financial Statements of Not-for-Profit Entities. The Organization has adjusted the presentation of its financial statements accordingly, and applied the changes retrospectively to the summarized comparative period presented. The new standards change the following aspects of the Organizations financial statements:

- The temporarily restricted and permanently restricted net asset classes have been combined into a single net asset class called net assets with donor restrictions.
- The unrestricted net asset class has been renamed to net assets without donor restrictions.
- The financial statements include a new disclosure about liquidity and availability of resources (Note 17).

In addition, certain amounts in the prior-year financial statements have been reclassified for comparative purposes to conform to the presentation in the current-year financial statements

Note 3 – Concentrations of Credit Risk

Financial instruments which potentially subject Habitat to concentration of credit risk include cash held at financial institutions which exceed FDIC insurance and mortgages receivable secured by real property. Habitat has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk.

Note 4 – Non-Interest Bearing Mortgage Loans, net of discounts

Mortgages receivable consist of non-interest bearing mortgages which are secured by real estate and payable in monthly installments over the life of the mortgage. Mortgages have an original maturity ranging from 15 to 30 years, and have been discounted with rates ranging from 7.4% to 8.4%. Following is a summary of non-interest bearing mortgage loans at June 30, 2019, which management has estimated to be fully collectible or recoverable through foreclosure and re-sale:

Non-interest bearing mortgage loans at face value	\$ 10,900,602
Unamortized discount on mortgages	(5,446,974)
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	\$ 5,453,628
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Less than one year	\$ 277,124
Greater than one year	5,176,504
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	\$ 5,453,628
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Indian River County Habitat for Humanity, Inc.

Notes to Financial Statements (continued)

Note 5 – Home Construction Activity

Following is a summary of home building activity for the year ended June 30, 2019:

	Number	Costs
New and Rehab homes under construction, July 1, 2018	11	\$ 468,673
Additional costs incurred on:		
beginning inventory of new homes		582,172
beginning inventory of Recycled / Rehab homes		3,994
New homes started during the year	15	1,102,542
Recycled / Rehab homes acquired	2	160,742
New homes sold	(16)	(1,801,921)
Recycled / Rehab homes sold	(1)	(74,709)
Homes under construction, June 30, 2019	11	\$ 441,493

The eleven homes under construction on June 30, 2019 are detailed as follows:

	Number	Costs
New construction	8	\$ 223,539
Recycled / Rehab homes	3	217,954
Homes under construction, June 30, 2019	11	\$ 441,493

Note 6 – Property and Equipment, net

The following is a summary of property and equipment at June 30, 2019:

Construction equipment	\$ 20,062
Furniture and fixtures	129,687
ReStore and warehouse	3,987,508
Computer equipment	45,566
Computer software	19,586
Other equipment	720
ReStore equipment	66,934
Vehicles	196,341
Land - office complex	585,417
Office and training center	1,017,175
Other real estate owned	116,160
	6,185,156
Accumulated depreciation	(1,508,838)
	\$ 4,676,318

Indian River County Habitat for Humanity, Inc.

Notes to Financial Statements (continued)

Note 7 – Note Payable

On June 29, 2017, IRCHFH Funding Company 1, LLC established a secured promissory note due to Northern Trust in the principal amount of \$1,959,900. The note is non-interest bearing until maturity at January 2047. Monthly principal payments began July 2017 in the amount of \$6,229. Outstanding principal at June 30, 2019 amounts to \$1,816,635. The note is collateralized by mortgages as described in Note 13.

On May 3, 2019, IRCHFH Funding Company 1, LLC established a second secured promissory note due to Northern Trust in the principal amount of \$2,079,697. The note is non-interest bearing until maturity at February 1, 2048. Monthly principal payments began June 2019 in the amount of \$7,341. Outstanding principal at June 30, 2019 amounts to \$2,065,016. The note is collateralized by mortgages as described in Note 13

Habitat receives funding from the United States Department of Housing and Urban Development, under the Self-Help Home Ownership Program (SHOP). The funding is comprised of grant revenue (75% of funding) and a loan (25% of funding). These funds are used for land acquisition and infrastructure improvements for Habitat houses.

The loan portion of the funding is in the form of a non-interest bearing note. The loan agreements require principal only payments for 48 months. The four SHOP notes payable had a combined balance of \$97,239 at June 30, 2019.

Principal payments on notes payable are due as follows:

2020	\$ 198,302
2021	194,763
2022	179,121
2023	176,401
2024	162,837
2025 & after	3,067,466
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	\$ 3,978,890

Note 8 - Line of Credit

On July 7, 2014, Habitat entered into a secured line of credit in the amount of \$1,000,000. The line of credit bears interest variable monthly at the London Interbank Offered Rate (LIBOR) plus 2.15%. The line is secured by substantially all the accounts and personal property of the entity and expires February 28, 2020. As of June 30, 2019, no amounts have been drawn against this line and there is no outstanding balance.

On December 19, 2018, Habitat renewed a secured line of credit in the amount of \$1,750,000, with an adjustable rate of interest. The interest rate will be adjusted based on the Wall Street Journal Prime rate minus .50%, with a rate floor of 2.25%. This line of credit is secured by their campus located on U.S. Highway 1 in Indian River County, Florida. The line is due on demand. As of June 30, 2019, the outstanding balance is zero.

Indian River County Habitat for Humanity, Inc.

Notes to Financial Statements (continued)

Note 9 – Net Assets, Designated

Designated net assets consist of resources that have been voluntarily set aside by Habitat for the construction of homes that have been awarded to applicants

Note 10 – Net Assets with Donor Restrictions

Net Assets with donor restrictions at June 30, 2019 are restricted by purpose or time for the following:

Scholarships	\$ 175,890
Pledges receivable	10,000
Fellsmere expansion	15,000
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	\$ 200,890

Note 11 – Net Assets Released from Restriction

During the fiscal year ended June 30, 2019, net assets were released from donor restrictions due to the passage of time and usage as follows:

Scholarships	\$ 81,659
Pledges receivable	18,500
Veteran Projects	800
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	\$ 100,959

Note 12 – Transfers to Homeowners-Second Mortgages / Shared Appreciation Agreements

Habitat requires that, on the date of transfer, the homeowners sign a shared appreciation agreement in addition to any second mortgage which may be recorded. The intent of these instruments is to deter homeowners from immediately selling their newly acquired homes for a profit. The second mortgage represents the approximate difference between the fair market value of the home at the date of transfer less the amount equal to the funds needed to put the homeowners' monthly mortgage payment at 20% of the family's gross monthly income. The second mortgage amount generally ranges between \$10,000 to \$65,000 per home. The shared appreciation agreement systematically allocates a specific percentage of property appreciation to the homeowner and Habitat, on a declining basis over twenty years from the date of transfer. At such time, the shared appreciation agreement terminates. The payment of the second mortgage, and any amount which may be due under the shared appreciation agreement, are only due upon sale of property from the original homeowner to a non-qualifying party. Since this event will occur sometime in the unforeseeable future, and which will be beyond the organization's control, the present value of said mortgages cannot be readily determined. Accordingly, neither the face value nor present value of second mortgages held, are included in the financial statements. The face value of second mortgages held as of June 30, 2019 amounts to \$4,813,238.



Indian River County Habitat for Humanity, Inc.

Notes to Financial Statements (continued)

Note 13 – Transactions with Habitat for Humanity International, Inc.

By covenant agreement with Habitat for Humanity International, Inc., Habitat remits 10% of its contributions (excluding in-kind and capital campaign contributions) to construct homes in economically depressed areas around the world. For the year ended June 30, 2019, Habitat contributed \$250,000 toward this effort

Note 14 – Securitization of Mortgages and Commitment

On June 29, 2017, IRCHFH Funding Company 1, LLC acquired, under purchase agreement from Habitat, 25 mortgages receivable with principal balances totaling \$1,959,900. To fund the purchase of these subject mortgages, IRCHFH Funding authorized the issuance of a promissory note secured by the aforementioned mortgages and entered into a note purchase agreement with Northern Trust Bank for the securitized note. See Note 6 for the terms and outstanding balance of the Note payable at June 30, 2019. Under the securitization and collateralized loan transaction, if one of the collateralized mortgage loans becomes nonperforming, IRCHFH Funding is obligated to purchase that loan out of the collateral pool or substitute a substantially similar mortgage loan.

On May 3, 2019, IRCHFH Funding Company 1, LLC acquired, under purchase agreement from Habitat, 21 mortgages receivable with principal balances totaling \$2,198,565. To fund the purchase of these subject mortgages, IRCHFH Funding authorized the issuance of a promissory note secured by the aforementioned mortgages and entered into a second note purchase agreement with Northern Trust Bank for the securitized note. See Note 6 for the terms and outstanding balance of the Note payable at June 30, 2019. Under the securitization and collateralized loan transaction, if one of the collateralized mortgage loans becomes nonperforming, IRCHFH Funding is obligated to purchase that loan out of the collateral pool or substitute a substantially similar mortgage loan.

As discussed in Note 1, IRCHFH Funding Company 1, LLC is a wholly owned subsidiary of Habitat and as such the entities are consolidated. All intercompany amounts, including the effects of gains and losses, unamortized discounts, and any imputed interest related to transactions between the entities are eliminated in the accompanying financial statements.

Note 15 – Fair Value Measurement

ASC Topic 820, “Fair Value Measurements and Disclosures”, defines fair value, establishes guidelines for measuring fair value, and expands disclosure regarding fair value measurements. ASC Topic 820 establishes a fair value hierarchy, which prioritizes the inputs to valuation techniques used to measure fair value into three levels. A financial instrument’s categorization within the fair value hierarchy is based upon the lowest level of input that is available and significant to the fair value measurement. ASC Topic 820 establishes and prioritizes three levels of inputs that may be used to measure fair value.

Indian River County Habitat for Humanity, Inc.

Notes to Financial Statements (continued)

Note 15 – Fair Value Measurement (continued)

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Observable inputs other than quoted prices in active markets for identical assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable market data for substantially the full term of the assets or liabilities.

Level 3 – Inputs that are generally unobservable and typically reflect management’s estimates of assumptions that market participants would use in pricing the asset or liability. The following methods and assumptions were used by Habitat in estimating its fair value disclosures for financial instruments on a nonrecurring basis:

- Cash, cash equivalents, current portion of pledge receivable, accounts receivable, cost of homes under construction, accounts payable, notes payable and line of credit: The carrying amounts reported in the statement of financial position approximate fair values because of the short maturities of those instruments. For long-term assets and liabilities, Habitat will continue to utilize the exemption from certain disclosure requirements for financial instruments provided by FASB ACS 825-10-50-3.
- Long-term unconditional promises to give: The fair value of promises to give that are due in more than one year is estimated by discounting expected future cash flows using a 4% rate of return.
- Mortgage loan receivable: The fair value of mortgage loan receivable is estimated by discounting expected future cash flows as more fully described in Note 3.
- Land held for development: The fair value of land held for development is estimated by management based on current tax appraised values and other information compiled from industry experts, historical real estate transactions, and Indian River County property records.

The following table presents Habitat’s assets measured at fair value on a non-recurring basis at June 30, 2019:

Fair value Measurement:

	Level 1	Level 2	Level 3
Mortgage loans receivable	\$ -	\$ -	\$ 5,186,504
Pledges receivable	-	-	10,000
Land held for development	-	-	2,363,547
	\$ -	\$ -	\$ 7,560,051



Indian River County Habitat for Humanity, Inc.

Notes to Financial Statements (continued)

Note 16– Impairment Loss

In accordance with generally accepted accounting principles, certain assets require the recognition of an impairment loss whenever events or changes in circumstances have indicated that an asset may be impaired and the estimated 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.

The most recent impairment loss related to the fair value of land held for development was recorded during the year ended June 30, 2015. No further impairment has been determined

Land held for development is therefore presented at fair value at June 30, 2019, as per the following table:

Land held for development at cost	\$ 3,717,185
Allowance for impairment	(1,353,638)
Land held for development at fair value	\$ 2,363,547

Note 17 – Liquidity and Availability of Financial Assets

The Organization has \$3,558,387 of financial assets available within one year of the statement of financial position date to meet cash needs for general operating expenditures. Available current assets include cash of \$2,619,482, inventory of \$651,781, current portion of mortgage loans of \$277,124, and pledges receivable of \$10,000. The Organization will additionally fund operating needs through contributions and fundraising.

Note 18 – Subsequent Events

Management has evaluated subsequent events through August 23, 2019, the date the financial statements were available to be issued. Management is not aware of any events subsequent to the statement of financial position date which would require additional adjustments to, or disclosure in the accompanying financial statements

