

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

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

June 30, 2021
(With Corresponding Totals for 2020)

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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, 2021, 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 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 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 consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the 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.

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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 financial position of Indian River County Habitat for Humanity, Inc. and Subsidiary as of June 30, 2021, and the changes in their net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Adjustment

As described in Note 20 to the financial statements, Indian River County Habitat for Humanity, Inc. corrected an error in its reporting of notes payable in fiscal year ended 2017 and 2019, to reflect a discount for imputed interest on two zero-interest loans. The accompanying summarized comparative information has been restated to apply the correction to the prior year presentation for comparative purposes. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited Indian River County Habitat for Humanity, Inc.'s 2020 consolidated financial statements, and our report dated August 25, 2020, expressed an unmodified opinion on those audited financial statements. In our opinion, after consideration of the above prior period adjustment, the summarized comparative information presented herein as of and for the year ended June 30, 2020, 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
Vero Beach, Florida

September 10, 2021

Indian River County Habitat for Humanity, Inc.
Consolidated Statement of Financial Position
June 30, 2021
(With corresponding totals as of June 30, 2020)

	2021	2020 (Restated)
Assets		
Current Assets:		
Cash and cash equivalents	\$ 2,990,313	\$ 2,735,269
Current portion of mortgage loans	306,191	303,749
Costs of homes under construction	1,048,895	847,699
Inventory	607,702	648,033
Other current assets	56,045	78,461
Total current assets	5,009,146	4,613,211
Other Assets:		
Restricted cash	288,283	277,422
Certificates of deposit	253,460	250,789
Non-interest bearing mortgage loans, net of discount	5,778,134	5,486,621
Property and equipment, net	4,365,411	4,544,148
Land held for development	2,298,512	2,278,307
Other assets	10,391	6,980
Total other assets	12,994,191	12,844,267
Total assets	\$ 18,003,337	\$ 17,457,478
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 429,061	\$ 413,616
Escrow and warranty reserve	288,283	277,422
Current portion of notes payable	191,562	195,674
Total current liabilities	908,906	886,712
Long-Term Liabilities:		
Note payable - PPP Forgivable	-	299,600
SHOP notes payable	126,055	102,815
Notes payable, net of discount	2,379,138	2,448,108
Less current portion of notes payable	(191,562)	(195,674)
Total long-term liabilities	2,313,631	2,654,849
Total liabilities	3,222,537	3,541,561
Net Assets:		
Net assets without donor restrictions:		
Designated	4,583,076	839,430
Undesignated	9,813,314	12,721,263
Total Net assets without donor restrictions	14,396,390	13,560,693
Net assets with donor restrictions	384,410	355,224
Total net assets	14,780,800	13,915,917
Total liabilities and net assets	\$ 18,003,337	\$ 17,457,478

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, 2021
(With corresponding totals as of June 30, 2020)

	2021			2020
	Without Donor Restrictions	With Donor Restrictions	Total	All Funds Combined
Public Support and Revenue				(Restated)
Contributions	\$ 828,785	\$ 82,386	\$ 911,171	\$ 1,418,820
Grants	719,102	21,000	740,102	298,445
Transfers to homeowners	1,545,900	-	1,545,900	1,552,261
ReStore revenue	2,252,595	-	2,252,595	1,904,144
Mortgage loan discount amortization	412,975	-	412,975	387,908
Fundraising and other income	802,520	-	802,520	791,851
In-kind contributions	50,691	-	50,691	96,860
Loss on sale of assets	(1,384)	-	(1,384)	1,691
Net assets released from restriction	74,200	(74,200)	-	-
Total public support and revenue	6,685,384	29,186	6,714,570	6,451,980
Expenses				
Family support services	4,157,663	-	4,157,663	4,243,615
ReStore	1,039,444	-	1,039,444	980,791
Fundraising and development	399,293	-	399,293	433,445
Management and general	253,287	-	253,287	234,261
Total program and supporting services	5,849,687	-	5,849,687	5,892,112
Increase in net assets	835,697	29,186	864,883	559,868
Net assets, beginning of year	13,560,693	355,224	13,915,917	13,356,049
Net assets, end of year	\$ 14,396,390	\$ 384,410	\$ 14,780,800	\$13,915,917

See accompanying notes to financial statements.

Indian River County Habitat for Humanity, Inc.
Consolidated Statement of Functional Expenses
For the Year ended June 30, 2021
(With corresponding totals as of June 30, 2020)

		2021				2020
	Program Services	Supporting Services			Total	All Funds Combined
	Family Support, Education and Construction	ReStore	Fundraising	Management and General		(Restated)
Salaries and wages	\$ 743,220	\$ 492,217	\$ 228,253	\$ 179,392	\$ 1,643,082	\$ 1,609,498
Payroll taxes and benefits	187,668	107,797	40,992	31,519	367,976	373,355
Total payroll	930,888	600,014	269,245	210,911	2,011,058	1,982,853
Advertising	252	59,591	1,021	-	60,864	47,275
Cost of homes transferred	1,318,579	-	-	-	1,318,579	1,358,444
Other construction costs	426,139	-	-	-	426,139	405,588
Depreciation	28,363	145,151	7,528	4,499	185,541	183,158
Discount on mortgages	816,600	-	-	-	816,600	858,361
Discount on notes payable	93,867	-	-	-	93,867	96,465
Insurance	44,401	48,796	9,003	5,651	107,851	100,388
Office expenses and miscellaneous	142,902	58,022	32,943	21,927	255,794	218,108
Postage and printing	2,225	-	14,792	365	17,382	18,181
Professional services	21,012	23,246	15,435	2,818	62,511	67,069
Public relations	-	-	4,190	-	4,190	3,209
Rent expense	5,493	28,078	1,726	871	36,168	32,811
Repairs and maintenance	32,001	38,943	4,816	2,902	78,662	65,955
Telephone	3,304	3,468	704	1,417	8,893	9,496
Tithe to International	265,619	-	-	-	265,619	286,569
Travel	1,150	18	331	155	1,654	5,272
Property taxes	6,893	5,730	1,293	772	14,688	14,516
Utilities	10,613	26,287	1,639	999	39,538	40,151
Volunteer recognition	7,362	-	156	-	7,518	23,968
Direct fundraising expense	-	2,100	34,471	-	36,571	74,275
Total expenses	\$ 4,157,663	\$ 1,039,444	\$ 399,293	\$ 253,287	\$ 5,849,687	\$ 5,892,112

See accompanying notes to financial statements.



Indian River County Habitat for Humanity, Inc.
Consolidated Statement of Cash Flows
For the Year ended June 30, 2021
(With corresponding totals as of June 30, 2020)

	2021	2020
Cash flows from operating activities:		(Restated)
Increase in net assets	\$ 864,883	\$ 559,868
Adjustments to reconcile increase in net assets to net cash flows provided by (used for) operating activities:		
Transfers to homeowners, net of discount	691,689	674,545
Depreciation	185,541	183,158
Mortgage loan discount	(412,975)	(387,908)
Gain on sale of assets	1,384	(1,691)
Discount on notes payable	93,867	96,465
In-kind contributions	40,331	3,748
(Increase) decrease in:		
Restricted cash	(10,861)	45,272
Grant, pledges and other receivables	-	10,000
Land held for development and cost of homes under construction	(1,709,801)	(1,859,341)
Other assets	23,331	(2,394)
Increase (decrease) in:		
Accounts payable, escrow and accrued expenses	26,306	47,814
Net cash used for operating activities	(206,305)	(630,464)
Cash flows from investing activities		
Purchase of certificate of deposit	-	(250,789)
Purchase of fixed assets	(8,688)	(60,963)
Proceeds from sale of assets	500	6,930
Mortgage payments received	908,734	908,734
Net cash provided by investing activities	900,546	603,912
Cash flows from financing activities:		
Proceeds from note payable	-	299,600
Payments on note payable	(462,437)	(162,837)
Proceeds from SHOP notes and lines of credit	49,398	29,102
Payments on SHOP notes and lines of credit	(26,158)	(23,526)
Net cash provided by/(used for) financing activities	(439,197)	142,339
Net increase in cash	255,044	115,787
Cash, beginning of year	2,735,269	2,619,482
Cash, end of year	\$ 2,990,313	\$ 2,735,269
Supplemental disclosure of cash flow information:		
Interest paid	\$ -	\$ -
Supplemental disclosure of noncash activities:		
Issuance of non-interest bearing mortgage loans	\$ 1,445,804	\$ 1,542,261
Discount on non-interest bearing mortgage loans	\$ (403,625)	\$ (470,454)
Forgiveness of PPP loan	\$ 299,600	\$ -

See accompanying notes to financial statements.

Indian River County Habitat for Humanity, Inc.
Notes to Financial Statements
For the Year ended June 30, 2021

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 principles, 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 did not exceed FDIC insured limits at June 30, 2021. 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 1 and 16. No additional impairment was recorded for the year ended June 30, 2021.

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, 2021, restricted cash of \$288,283 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 14). 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 Equivalent
Utilities	Full Time Equivalent
Office expenses	Full Time Equivalent

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, 2020, but herein, does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Additionally, the prior year comparative figures reflect adjustments and restatements for the correction of an error as described in Note 20, and also certain reclassifications of amounts to conform to current year presentations.

Indian River County Habitat for Humanity, Inc.

Notes to Financial Statements (continued)

Note 2 – 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 3 – 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, 2021, which management has estimated to be fully collectible or recoverable through foreclosure or re-sale:

Non-interest bearing mortgage loans at face value	\$ 13,528,176
Unamortized discount on mortgages	(7,443,851)
	<u>\$ 6,084,325</u>
Less than one year	\$ 306,191
Greater than one year	5,778,134
	<u>\$ 6,084,325</u>

Note 4 – Property and Equipment, net

The following is a summary of property and equipment at June 30, 2021:

Construction equipment	\$ 17,027
Furniture and fixtures	129,688
ReStore and warehouse	4,002,582
Computer equipment	52,673
Computer software	19,586
Other equipment	3,263
ReStore equipment	66,934
Vehicles	198,287
Land - office complex	585,417
Office and training center	1,017,175
Other real estate owned	122,035
	<u>6,214,667</u>
Accumulated depreciation	<u>(1,849,256)</u>
	<u>\$ 4,365,411</u>

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, 2021:

	Number	Costs
New and Rehab homes under construction, July 1, 2020	17	\$ 847,699
Additional costs incurred on:		
beginning inventory of new homes		921,576
beginning inventory of Recycled / Rehab homes		25,551
New homes started during the year	12	572,648
Recycled / Rehab homes acquired	-	-
New homes sold	(11)	(1,318,579)
Recycled / Rehab homes sold	-	-
Homes under construction, June 30, 2021	18	\$ 1,048,895

The eighteen homes under construction on June 30, 2021 are detailed as follows:

	Number	Costs
New construction	14	\$ 685,797
Recycled / Rehab homes	4	363,098
Homes under construction, June 30, 2021	18	\$ 1,048,895

Note 6 – Note Payable - PPP Loan Forgiven

On April 15, 2020 Habitat received loan proceeds in the amount of \$299,600 under the Paycheck Protection Program (“PPP”). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act (“CARES Act”), provides for loans to qualifying businesses and nonprofits for amounts up to 2.5 times the average monthly payroll expenses of the qualifying organization. The funds must be spent over the “Covered Period” which is either twenty-four weeks or, if Habitat elects, eight weeks from the loan disbursement date. The entire loan was fully forgiven on May 21, 2021.

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 and has been discounted at an imputed interest rate of 3.25% until maturity in January 2047. Monthly principal payments began July 2017 in the amount of \$6,229. Outstanding principal at June 30, 2021 amounts to \$1,667,140. The note is collateralized by mortgages as described in Note 13.

Indian River County Habitat for Humanity, Inc.

Notes to Financial Statements (continued)

Note 7 – Note Payable (continued)

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, and has been discounted at an imputed interest rate of 4.5% until maturity in February 2048. Monthly principal payments began June 2019 in the amount of \$7,341. Outstanding principal at June 30, 2021 amounts to \$1,888,837. 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 SHOP funding is in the form of a non-interest bearing note. The loan agreements require principal only payments for 48 months. The six SHOP notes payable had a combined balance of \$126,055 at June 30, 2021.

Principal payments on notes payable are due as follows:

2022	\$ 191,562
2023	196,053
2024	192,807
2025	185,827
2026 & after	2,915,783
	3,682,032
Less: Discount on notes payable	-
	\$ 3,682,032

Note 8 - Line of Credit

In February 2021 Habitat renewed 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 organization and expires February 28, 2022. As of June 30, 2021, the outstanding balance is zero.

In November 2020, 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 and expires August 24, 2021. The line is due on demand. As of June 30, 2021, the outstanding balance is zero.

Note 9 – Net Assets, Designated

Designated net assets consist of resources voluntarily set aside by Habitat for the construction of homes that have been awarded to applicants. Additionally, the Board of Directors have designated funds for future projects as detailed below.



Indian River County Habitat for Humanity, Inc.

Notes to Financial Statements (continued)

Note 9 – Net Assets, Designated (continued)

Designated net assets consisted of the following at June 30, 2021:

Future homes awarded to applicants	\$2,225,336
Grace Meadows IV infrastructure and site planning	1,500,000
West Gifford infrastructure and site planning	500,000
Land acquisition	300,000
Post pandemic homeowner assistance	57,740
	<hr/>
	\$4,583,076

Note 10 – Net Assets with Donor Restrictions

Net Assets with donor restrictions at June 30, 2021 are restricted by purpose or time for the following:

Scholarships	\$ 322,410
Fellsmere expansion	45,000
Other restrictions	17,000
	<hr/>
	\$ 384,410

Note 11 – Net Assets Released from Restriction

During the fiscal year ended June 30, 2021, net assets were released from donor restrictions due to the passage of time and usage as follows:

Scholarships	\$ 73,451
Other Releases	749
	<hr/>
	\$ 74,200

Note 12 – 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. No changes in the valuation approach or technique were made during the period ended June 30, 2021.

Indian River County Habitat for Humanity, Inc.

Notes to Financial Statements (continued)

Note 12 – 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, 2021:

	Level 1	Level 2	Level 3
Certificates of Deposit	\$ 253,460	\$ -	\$ -
Mortgage loans receivable	-	-	6,084,325
Land held for development	-	-	2,298,512
	\$ 253,460	\$ -	\$ 8,382,837

Indian River County Habitat for Humanity, Inc.

Notes to Financial Statements (continued)

Note 13 – 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 7 for the terms and outstanding balance of the note payable at June 30, 2021. 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 7 for the terms and outstanding balance of the note payable at June 30, 2021. 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 14 – 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, 2021, amounts to \$5,960,084.

Indian River County Habitat for Humanity, Inc.

Notes to Financial Statements (continued)

Note 15 – 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, 2021, Habitat contributed \$265,619 toward this effort.

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, 2021, as follows:

Land held for development at cost	\$ 3,616,203
Allowance for impairment	(1,317,691)
Land held for development at fair value	\$ 2,298,512

Note 17 – Certificates of Deposit

Habitat invested in a 13-month certificate of deposit issued by Marine Bank with a yield of .11%, and matures in May of 2022. Unless notified, the CD automatically renews and the interest reinvests at the end of each term.

Note 18 – In-kind Contributions

The Organization receives in-kind contributed professional services from various companies, including engineering and land surveying firms, primarily used in the construction of homes. The fair value of these in-kind contributed services for the year ended June 30, 2021 was \$50,691.

Note 19 – Liquidity and Availability of Financial Assets

The Organization has \$3,904,206 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 \$2,990,313, inventory of \$607,702 and current portion of mortgage loans of \$306,191. The Organization will additionally fund operating needs through contributions and fundraising.

Indian River County Habitat for Humanity, Inc.

Notes to Financial Statements (continued)

Note 20 – Prior Period Adjustment

During 2017 and 2019, Indian River County Habitat for Humanity, Inc. negotiated two long-term note payable loans as described in Note 7. Both provided for zero interest through the maturity date of the respective loans. The notes payable were erroneously originally reported without a discount for imputed interest.

The summarized prior period information has been restated for comparative purposes. Beginning equity balances of the prior period presentation are restated to reflect for the correction of a discount on notes payable.

Details of prior period balances as restated at June 30, 2020 are as follows:

Notes payable, net of discount at June 30, 2020	\$	3,718,814
Correction to record discount on notes payable		(1,270,706)
Notes payable, net of discount at June 30, 2020, restated	\$	2,448,108
Total net assets at June 30, 2020	\$	12,645,211
Correction to record discount on notes payable		1,270,706
Total net assets at June 30, 2020, restated	\$	13,915,917
Issuance discount on notes payable revenue at June 30, 2020	\$	-
Correction to record discount on notes payable		(1,270,706)
Issuance discount on notes payable revenue at June 30, 2020, restated	\$	(1,270,706)
Discount on notes payable expense at June 30, 2020	\$	-
Correction to record discount on notes payable		96,465
Discount on notes payable expense at June 30, 2020, restated	\$	96,465

Note 21 – Subsequent Events**COVID-19 Disruption**

In March 2020, a global pandemic was declared by the World Health Organization as a result of the rapidly growing outbreak of the coronavirus, COVID-19. The pandemic has significantly impacted the economic conditions in the United States, including disrupting supply chains and affecting production and sales across a range of industries. The extent of the ultimate effects of COVID-19 on the Organizations operating and financial performance cannot be predicted at this time.

Management has evaluated subsequent events through September 10, 2021, the date the financial statements were available to be issued. After consideration of the above, management is not aware of any additional events subsequent to the statement of financial position date which would require additional adjustments to, or disclosure in, the accompanying financial statements.