

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

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

June 30, 2020
(With Corresponding Totals for 2019)

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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, 2020, 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, 2020, 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 2019 financial statements, and our report dated August 23, 2019, 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, 2019, 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
August 25, 2020



Indian River County Habitat for Humanity, Inc.
Consolidated Statement of Financial Position
June 30, 2020
(With corresponding totals as of June 30, 2019)

	2020	2019
Assets		
Current Assets:		
Cash and cash equivalents	\$ 2,986,058	\$ 2,619,482
Current portion of mortgage loans	303,749	277,124
Current portion of pledges receivable	-	10,000
Costs of homes under construction	847,699	441,493
Inventory	648,033	651,781
Other current assets	78,461	69,425
Total current assets	4,864,000	4,069,305
Other Assets:		
Restricted cash	277,422	322,694
Non-interest bearing mortgage loans, net of discount	5,486,621	5,176,504
Property and equipment, net	4,544,148	4,676,318
Land held for development	2,278,307	2,363,547
Other assets	6,980	2,624
Total other assets	12,593,478	12,541,687
Total assets	\$ 17,457,478	\$ 16,610,992
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 413,616	\$ 320,530
Escrow and warranty reserve	277,422	322,694
Current portion of notes payable	195,674	198,302
Total current liabilities	886,712	841,526
Long-Term Liabilities:		
Note payable - PPP Forgivable	299,600	-
SHOP notes payable	102,815	97,239
Notes payable	3,718,814	3,881,651
Less current portion of notes payable	(195,674)	(198,302)
Total long-term liabilities	3,925,555	3,780,588
Total liabilities	4,812,267	4,622,114
Net Assets:		
Net assets without donor restrictions:		
Designated	839,430	1,669,855
Undesignated	11,450,557	10,118,133
Total Net assets without donor restrictions	12,289,987	11,787,988
Net assets with donor restrictions	355,224	200,890
Total net assets	12,645,211	11,988,878
Total liabilities and net assets	\$ 17,457,478	\$ 16,610,992

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, 2020
(With corresponding totals as of June 30, 2019)

	2020			2019
	Without Donor Restrictions	With Donor Restrictions	Total	All Funds Combined
Public Support and Revenue				
Contributions	\$ 1,193,541	\$ 225,279	\$ 1,418,820	\$ 1,288,854
Grants	283,445	15,000	298,445	430,364
Transfers to homeowners	1,552,261	-	1,552,261	2,035,583
ReStore revenue	1,904,144	-	1,904,144	2,000,168
Mortgage loan discount amortization	387,908	-	387,908	406,131
Mortgage loan discount on loans sold	-	-	-	36,769
Fundraising and other income	888,711	-	888,711	659,591
Gain on sale of assets	1,691	-	1,691	14,842
Net assets released from restriction	85,945	(85,945)	-	-
Total public support and revenue	6,297,646	154,334	6,451,980	6,872,302
Expenses				
Family support services	4,147,150	-	4,147,150	4,782,133
ReStore	980,791	-	980,791	1,016,370
Fundraising and development	433,445	-	433,445	501,682
Management and general	234,261	-	234,261	208,778
Total program and supporting services	5,795,647	-	5,795,647	6,508,963
Increase in net assets	501,999	154,334	656,333	363,339
Net assets, beginning of year	11,787,988	200,890	11,988,878	11,625,539
Net assets, end of year	\$ 12,289,987	\$ 355,224	\$ 12,645,211	\$11,988,878

See accompanying notes to financial statements.

Indian River County Habitat for Humanity, Inc.
Consolidated Statement of Functional Expenses
For the Year ended June 30, 2020
(With corresponding totals as of June 30, 2019)

	2020				Total	2019 All Funds Combined
	Program Services	Supporting Services				
	Family Support, Education and Construction	ReStore	Fundraising	Management and General		
Salaries and wages	\$ 747,773	\$ 485,390	\$ 216,770	\$ 159,565	\$ 1,609,498	\$ 1,546,292
Payroll taxes and benefits	194,924	99,033	42,427	36,971	373,355	378,598
Total payroll	942,697	584,423	259,197	196,536	1,982,853	1,924,890
Advertising	428	44,433	2,414	-	47,275	60,657
Cost of homes transferred	1,358,444	-	-	-	1,358,444	1,876,630
Other construction costs	405,588	-	-	-	405,588	388,610
Depreciation	26,732	145,608	6,616	4,202	183,158	181,067
Discount on mortgages	858,361	-	-	-	858,361	1,000,493
Insurance	40,279	46,133	8,699	5,277	100,388	85,060
Interest	-	-	-	-	-	11,832
Office expenses and miscellaneous	117,516	48,369	34,804	17,419	218,108	252,704
Postage and printing	3,457	27	14,187	510	18,181	13,371
Professional services	26,633	23,314	14,239	2,883	67,069	136,204
Public relations	-	-	3,209	-	3,209	11,759
Rent expense	4,945	25,305	1,784	777	32,811	33,184
Repairs and maintenance	29,748	30,225	3,689	2,293	65,955	64,161
Telephone	4,029	3,132	642	1,693	9,496	9,065
Tithe to International	286,569	-	-	-	286,569	251,244
Travel	2,903	47	1,615	707	5,272	11,148
Property taxes	7,206	5,359	1,193	758	14,516	13,605
Utilities	12,671	24,373	1,901	1,206	40,151	49,409
Volunteer recognition	18,944	43	4,981	-	23,968	22,554
Direct fundraising expense	-	-	74,275	-	74,275	111,316
Total expenses	\$ 4,147,150	\$ 980,791	\$ 433,445	\$ 234,261	\$ 5,795,647	\$ 6,508,963

See accompanying notes to financial statements.



Indian River County Habitat for Humanity, Inc.
Consolidated Statement of Cash Flows
For the Year ended June 30, 2020
(With corresponding totals as of June 30, 2019)

	2020	2019
Cash flows from operating activities:		
Increase in net assets	\$ 656,333	\$ 363,339
Adjustments to reconcile increase in net assets to net cash flows provided by (used for) operating activities:		
Transfers to homeowners, net of discount	674,545	1,015,813
Depreciation	183,158	181,067
Mortgage loan discount	(387,908)	(442,900)
Gain on sale of assets	(1,691)	(14,842)
In-kind contributions	3,748	(126,762)
(Increase) decrease in:		
Restricted cash	45,272	29,441
Grant, pledges and other receivables	10,000	18,500
Land held for development and cost of homes under construction	(1,859,341)	(1,883,232)
Other assets	(2,394)	(23,207)
Increase (decrease) in:		
Accounts payable, escrow and accrued expenses	47,814	(6,027)
Net cash used for operating activities	(630,464)	(888,810)
Cash flows from investing activities		
Purchase of fixed assets	(60,963)	(21,414)
Proceeds from sale of assets	6,930	35,118
Mortgage payments received	908,734	658,626
Net cash provided by investing activities	854,701	672,330
Cash flows from financing activities:		
Proceeds from note payable	299,600	2,079,697
Payments on note payable	(162,837)	(83,199)
Proceeds from SHOP notes and lines of credit	29,102	16,250
Payments on SHOP notes and lines of credit	(23,526)	(131,503)
Net cash provided by financing activities	142,339	1,881,245
Net increase in cash	366,576	1,664,765
Cash, beginning of year	2,619,482	954,717
Cash, end of year	\$ 2,986,058	\$ 2,619,482
Supplemental disclosure of cash flow information:		
Interest paid	\$ -	\$ 11,832
Supplemental disclosure of noncash activities:		
Issuance of non-interest bearing mortgage loans	\$ 1,542,261	\$ 1,861,479
Discount on non-interest bearing mortgage loans	\$ (470,454)	\$ (557,762)

See accompanying notes to financial statements.



Indian River County Habitat for Humanity, Inc.

Notes to Financial Statements

For the Year ended June 30, 2020

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, 2020.

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, 2020, restricted cash of \$277,422 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, 2019, 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 – 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, 2020, which management has estimated to be fully collectible or recoverable through foreclosure and re-sale:

Non-interest bearing mortgage loans at face value	\$ 12,830,597
Unamortized discount on mortgages	(7,040,227)
	<u>\$ 5,790,370</u>
Less than one year	\$ 303,749
Greater than one year	5,486,621
	<u>\$ 5,790,370</u>

Note 4 – Property and Equipment, net

The following is a summary of property and equipment at June 30, 2020:

Construction equipment	\$ 20,062
Furniture and fixtures	129,688
ReStore and warehouse	4,002,582
Computer equipment	64,680
Computer software	19,586
Other equipment	1,918
ReStore equipment	66,934
Vehicles	202,453
Land - office complex	585,417
Office and training center	1,017,175
Other real estate owned	116,160
	<u>6,226,655</u>
Accumulated depreciation	(1,682,507)
	<u>\$ 4,544,148</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, 2020:

	Number	Costs
New and Rehab homes under construction, July 1, 2019	11	\$ 441,493
Additional costs incurred on:		
beginning inventory of new homes		646,580
beginning inventory of Recycled / Rehab homes		34,155
New homes started during the year	17	998,476
Recycled / Rehab homes acquired	1	85,439
New homes sold	(12)	(1,358,444)
Recycled / Rehab homes sold	-	-
Homes under construction, June 30, 2020	17	\$ 847,699

The eleven homes under construction on June 30, 2020 are detailed as follows:

	Number	Costs
New construction	13	\$ 510,152
Recycled / Rehab homes	4	337,547
Homes under construction, June 30, 2020	17	\$ 847,699

Note 6 – Note Payable - PPP Forgivable

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 PPP loan provides for grantees to apply for loan forgiveness any time on or before the maturity date of the loan, including before the end of the Covered Period. The PPP loan and accrued interest are forgivable, as long as Habitat used the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintained its payroll levels. The amount of loan forgiveness can be reduced if the borrower terminates employees or reduces salaries during the Covered Period.

If the entire loan is not forgiven, the unforgiven portion is payable over two years at an interest rate of 1%, with a deferral of payments for the first six months. Habitat management believes that its use of the loan proceeds will meet the conditions for complete forgiveness of the loan.

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, 2020 amounts to \$1,741,888. The note is collateralized by mortgages as described in Note 14.

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, 2020 amounts to \$1,976,926. The note is collateralized by mortgages as described in Note 14

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 five SHOP notes payable had a combined balance of \$102,815 at June 30, 2020.

Principal payments on notes payable are due as follows:

2021	\$ 195,674
2022	187,228
2023	184,160
2024	176,187
2025 & after	3,078,380
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	\$ 3,821,629

Note 8 - Line of Credit

In February 2020 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 entity and expires February 28, 2021. As of June 30, 2020, 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, 2020. The line is due on demand. As of June 30, 2020, 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, 2020 are restricted by purpose or time for the following:

Scholarships	\$ 313,724
Fellsmere expansion	30,000
Other restrictions	11,500
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	\$ 355,224

Note 11 – Net Assets Released from Restriction

During the fiscal year ended June 30, 2020, net assets were released from donor restrictions due to the passage of time and usage as follows:

Scholarships	\$ 75,945
Pledges receivable	10,000
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	\$ 85,945

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, 2020 amounts to \$5,360,867.



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, 2020, Habitat contributed \$286,569 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 7 for the terms and outstanding balance of the Note payable at June 30, 2020. 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, 2020. 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, 2020:

Fair value Measurement:

	Level 1	Level 2	Level 3
Mortgage loans receivable	\$ -	\$ -	\$ 5,790,370
Land held for development	-	-	2,278,307
	\$ -	\$ -	\$ 8,068,677



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, 2020, as per the following table:

	2020
Land held for development at cost	\$ 3,631,940
Allowance for impairment	(1,353,633)
Land held for development at fair value	\$ 2,278,307

Note 17 – Liquidity and Availability of Financial Assets

The Organization has \$3,937,840 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 \$2,986,058, inventory of \$648,033 and current portion of mortgage loans of \$303,749. The Organization will additionally fund operating needs through contributions and fundraising.

Note 18 – Subsequent Events

COVID-19 Disruption

On March 11, 2020, the World Health Organization declared the outbreak of coronavirus (COVID-19) a pandemic, resulting in the temporary closure or limitation of many business services across the country. Although Indian River County Habitat for Humanity, Inc. only experienced a temporary disruption to its operations, management is presently unable to predict what short-term and long-term impact this pandemic will have on the Organization. There have been no adjustments to these financial statements as a result of this uncertainty.

Management has evaluated subsequent events through August 25, 2020, 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.

