# HIGHLANDS COUNTY HABITAT FOR HUMANITY, INC.

## FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

## AS OF JUNE 30, 2022 AND 2021

# HIGHLANDS COUNTY HABITAT FOR HUMANITY, INC.

# AS OF JUNE 30, 2022 AND 2021

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# INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Highlands County Habitat for Humanity, Inc.
Sebring, Florida

***Opinion***

We have audited the accompanying financial statements of Highlands County Habitat for Humanity, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Highlands County Habitat for Humanity, Inc. as of June 30, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Basis for Opinion***

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

***Responsibilities of Management for the Financial Statements***

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

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

***Auditor's Responsibilities for the Audit of the Financial Statements***

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Highlands County Habitat for Humanity, Inc.'s internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Highlands County Habitat for Humanity, Inc.'s ability to continue as a going concern for a reasonable period of time.

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

Affinity CPA, P.A.

Tampa, Florida
January 5, 2023

# HIGHLANDS COUNTY HABITAT FOR HUMANITY, INC.
## STATEMENTS OF FINANCIAL POSITION
## AS OF JUNE 30, 2022 AND 2021

| | June 30, 2022 | June 30, 2021 |
|---|---|---|
| **ASSETS** | | |
| Current assets | | |
| Cash and cash equivalents | | |
| Unrestricted | $ 2,030,781 | $ 1,678,357 |
| Restricted | 104,935 | 100,965 |
| Mortgage notes receivable net of discounts and allowance for uncollectibles, due within one year | 147,444 | 148,933 |
| Other receivables, due within one year | 61,355 | 15,948 |
| Inventory | | |
| Construction in progress | 357,578 | 431,792 |
| Completed homes for sale | 306,000 | - |
| Land for development, current | 369,698 | 406,890 |
| Land for resale | 17,776 | 17,776 |
| Other assets | 26,107 | 19,600 |
| Total current assets | 3,421,674 | 2,820,261 |
| Non-current assets | | |
| Property and equipment, net | 448,486 | 480,383 |
| Other receivables, due after one year | 9,967 | 29,679 |
| Inventory - land held for development | 189,175 | 189,175 |
| Mortgage notes receivable net of discounts and allowance for uncollectibles, due after one year | 1,752,343 | 1,790,712 |
| Mortgages receivable - held for others | 231,782 | 326,779 |
| Total non-current assets | 2,631,753 | 2,816,728 |
| Total assets | $ 6,053,427 | $ 5,636,989 |
| **LIABILITIES AND NET ASSETS** | | |
| Current liabilities | | |
| Accounts payable | $ 34,301 | $ 38,332 |
| Accrued expenses | 33,020 | 24,606 |
| Escrow funds payable | 104,935 | 100,965 |
| Deferred revenue | 52,590 | 63,055 |
| Current portion of long-term debt | - | 20,400 |
| Agency payable | 230,367 | 325,615 |
| Total current liabilities | 455,213 | 572,973 |
| Long-term liabilities | | |
| Long-term debt, net of current maturities | - | 90,740 |
| Total liabilities | 455,213 | 663,713 |
| Net assets | | |
| Without donor restrictions | 5,333,963 | 4,959,521 |
| With donor restrictions | 264,251 | 13,755 |
| Total net assets | 5,598,214 | 4,973,276 |
| Total liabilities and net assets | $ 6,053,427 | $ 5,636,989 |

*See independent auditor's report and accompanying notes to the financial statements.*

**HIGHLANDS COUNTY HABITAT FOR HUMANITY, INC.**
**STATEMENT OF ACTIVITIES**
**FOR THE YEAR ENDED JUNE 30, 2022**
**(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2021)**

| | Without Donor Restrictions | With Donor Restrictions | Total June 30, 2022 | Total June 30, 2021 |
|---|---|---|---|---|
| **PUBLIC SUPPORT AND OTHER REVENUES** | | | | |
| Public support | | | | |
| Grants and contributions | $ 253,078 | $ 250,496 | $ 503,574 | $ 495,665 |
| Grant resulting from PPP loan forgiveness | 111,140 | - | 111,140 | 102,810 |
| The ReStore sales | 497,728 | - | 497,728 | 476,807 |
| Special events, net | 22,168 | - | 22,168 | 13,949 |
| In-kind contributions | 19,560 | - | 19,560 | 6,272 |
| Total public support | 903,674 | 250,496 | 1,154,170 | 1,095,503 |
| Other revenues | | | | |
| Sale of homes (mortgages received) | 145,000 | - | 145,000 | 304,790 |
| Imputed interest income on mortgages | 92,105 | - | 92,105 | 90,272 |
| Recovery of previously recorded bad debt | 69,890 | - | 69,890 | 37,297 |
| Payroll tax credit | 56,012 | - | 56,012 | 64,038 |
| Collection of second mortgages | 29,323 | - | 29,323 | 10,148 |
| Gain on sales of land for development, net | 20,522 | - | 20,522 | 3,246 |
| Other | 30,384 | - | 30,384 | 20,503 |
| Total other revenues | 443,236 | - | 443,236 | 530,294 |
| Total public support and other revenues | 1,346,910 | 250,496 | 1,597,406 | 1,625,797 |
| **EXPENSES AND LOSSES** | | | | |
| Program services: | | | | |
| Affordable housing construction costs | 351,849 | - | 351,849 | 585,129 |
| The ReStore | 325,430 | - | 325,430 | 309,246 |
| Total program services | 677,279 | - | 677,279 | 894,375 |
| Supporting services: | | | | |
| General administration | 264,074 | - | 264,074 | 271,800 |
| Fundraising | 31,115 | - | 31,115 | 25,801 |
| Total supporting services | 295,189 | - | 295,189 | 297,601 |
| Total expenses and losses | 972,468 | - | 972,468 | 1,191,976 |
| **Change in net assets** | 374,442 | 250,496 | 624,938 | 433,821 |
| Net assets, beginning of year | 4,959,521 | 13,755 | 4,973,276 | 4,539,455 |
| **Net assets, end of year** | $ 5,333,963 | $ 264,251 | $ 5,598,214 | $ 4,973,276 |

*See independent auditor's report and accompanying notes to the financial statements.*

## HIGHLANDS COUNTY HABITAT FOR HUMANITY, INC.
## STATEMENT OF ACTIVITIES
## FOR THE YEAR ENDED JUNE 30, 2021

| | Changes in Net Assets | | |
|---|---|---|---|
| | Without Donor Restrictions | With Donor Restrictions | Total |
| **PUBLIC SUPPORT AND OTHER REVENUES** | | | |
| Public support | | | |
| Grants and contributions | $ 482,791 | $ 12,874 | $ 495,665 |
| Grant resulting from PPP loan forgiveness | 102,810 | - | 102,810 |
| The ReStore sales | 476,807 | - | 476,807 |
| Special events, net | 13,949 | - | 13,949 |
| In-kind contributions | 6,272 | - | 6,272 |
| Total public support | 1,082,629 | 12,874 | 1,095,503 |
| Other revenues | | | |
| Sale of homes (mortgages received) | 304,790 | - | 304,790 |
| Imputed interest income on mortgages | 90,272 | - | 90,272 |
| Payroll tax credit | 64,038 | - | 64,038 |
| Recovery of previously recorded bad debt | 37,297 | - | 37,297 |
| Collection of second mortgages | 10,148 | - | 10,148 |
| Gain on disposition of assets | 3,246 | - | 3,246 |
| Other | 20,503 | - | 20,503 |
| Total other revenues | 530,294 | - | 530,294 |
| Net assets released from restrictions | 92,902 | (92,902) | - |
| Total public support and other revenues | 1,705,825 | (80,028) | 1,625,797 |
| **EXPENSES AND LOSSES** | | | |
| Program services: | | | |
| Affordable housing construction costs | 585,129 | - | 585,129 |
| The ReStore | 309,246 | - | 309,246 |
| Total program services | 894,375 | - | 894,375 |
| Supporting services: | | | |
| General administration | 271,800 | - | 271,800 |
| Fundraising | 25,801 | - | 25,801 |
| Total supporting services | 297,601 | - | 297,601 |
| Total expenses and losses | 1,191,976 | - | 1,191,976 |
| **Change in net assets** | 513,849 | (80,028) | 433,821 |
| Net assets, beginning of year | 4,445,672 | 93,783 | 4,539,455 |
| **Net assets, end of year** | $ 4,959,521 | $ 13,755 | $ 4,973,276 |

*See independent auditor's report and accompanying notes to the financial statements.*

# HIGHLANDS COUNTY HABITAT FOR HUMANITY, INC.
# STATEMENT OF FUNCTIONAL EXPENSES
# FOR THE YEAR ENDED JUNE 30, 2022
# (WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2021)

| | Program Services | | | Supporting Services | | | Total | |
|---|---|---|---|---|---|---|---|---|
| | Affordable Housing Construction Costs | The ReStore | Total Program Services | General Administration | Fundraising | Total Supporting Services | June 30, 2022 | June 30, 2021 |
| Personnel expenses | $ 17,892 | $ 233,337 | $ 251,229 | $ 134,192 | $ 13,510 | $ 147,702 | $ 398,931 | $ 410,966 |
| Other Expenses | | | | | | | | |
| Construction costs | 261,497 | - | 261,497 | - | 11,444 | 11,444 | 272,941 | 481,579 |
| Repairs, maintenance, and fuel | 8,060 | 19,849 | 27,909 | 12,843 | - | 12,843 | 40,752 | 30,524 |
| Professional | 218 | - | 218 | 37,630 | 350 | 37,980 | 38,198 | 35,794 |
| Insurance | 1,669 | 19,076 | 20,745 | 17,274 | - | 17,274 | 38,019 | 22,724 |
| Telephone and utilities | 691 | 22,062 | 22,753 | 9,129 | 670 | 9,799 | 32,552 | 32,706 |
| Office | 823 | 172 | 995 | 22,982 | 641 | 23,623 | 24,618 | 31,156 |
| Advertising | - | 200 | 200 | 15 | 4,500 | 4,515 | 4,715 | 1,944 |
| Conference and travel | - | - | - | 2,456 | - | 2,456 | 2,456 | 2,000 |
| Interest | - | - | - | 55 | - | 55 | 55 | 48 |
| Other | 4,642 | 15,174 | 19,816 | 11,161 | - | 11,161 | 30,977 | 30,399 |
| Total expenses before other non-cash items | 295,492 | 309,870 | 605,362 | 247,737 | 31,115 | 278,852 | 884,214 | 1,079,840 |
| Mortgage discounts and amortization | 55,303 | - | 55,303 | - | - | - | 55,303 | 80,888 |
| Depreciation | - | 15,560 | 15,560 | 16,337 | - | 16,337 | 31,897 | 31,248 |
| Decline in market value of inventory | 1,054 | - | 1,054 | - | - | - | 1,054 | - |
| Total expenses | $ 351,849 | $ 325,430 | $ 677,279 | $ 264,074 | $ 31,115 | $ 295,189 | $ 972,468 | $ 1,191,976 |

*See independent auditor's report and accompanying notes to the financial statements.*

**HIGHLANDS COUNTY HABITAT FOR HUMANITY, INC.**
**STATEMENT OF FUNCTIONAL EXPENSES**
**FOR THE YEAR ENDED JUNE 30, 2021**

| | Program Services | | | Supporting Services | | | |
|---|---|---|---|---|---|---|---|
| | Affordable Housing Construction Costs | The ReStore | Total Program Services | General Administration | Fundraising | Total Supporting Services | Total |
| Personnel expenses | $ 13,435 | $ 231,531 | $ 244,966 | $ 150,729 | $ 15,271 | $ 166,000 | $ 410,966 |
| Other Expenses | | | | | | | |
| Construction costs | 474,405 | - | 474,405 | - | 7,174 | 7,174 | 481,579 |
| Professional | 645 | - | 645 | 33,747 | 1,402 | 35,149 | 35,794 |
| Telephone and utilities | 671 | 21,532 | 22,203 | 9,799 | 704 | 10,503 | 32,706 |
| Office | 218 | 149 | 367 | 30,739 | 50 | 30,789 | 31,156 |
| Repairs, maintenance, and fuel | 7,973 | 20,139 | 28,112 | 2,412 | - | 2,412 | 30,524 |
| Insurance | 365 | 9,785 | 10,150 | 12,574 | - | 12,574 | 22,724 |
| Conference and travel | - | - | - | 2,000 | - | 2,000 | 2,000 |
| Advertising | 744 | - | 744 | - | 1,200 | 1,200 | 1,944 |
| Interest | - | - | - | 48 | - | 48 | 48 |
| Other | 5,785 | 13,939 | 19,724 | 10,675 | - | 10,675 | 30,399 |
| Total expenses before other non-cash items | 504,241 | 297,075 | 801,316 | 252,723 | 25,801 | 278,524 | 1,079,840 |
| Mortgage discounts and amortization | 80,888 | - | 80,888 | - | - | - | 80,888 |
| Depreciation | - | 12,171 | 12,171 | 19,077 | - | 19,077 | 31,248 |
| Total expenses | $ 585,129 | $ 309,246 | $ 894,375 | $ 271,800 | $ 25,801 | $ 297,601 | $ 1,191,976 |

*See independent auditor's report and accompanying notes to the financial statements.*

# HIGHLANDS COUNTY HABITAT FOR HUMANITY, INC.
# STATEMENTS OF CASH FLOWS
# FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

| | June 30, 2022 | June 30, 2021 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | |
| Change in net assets | $ 624,938 | $ 433,821 |
| Adjustments to reconcile change in net assets to net cash flows from operating activities: | | |
| Depreciation | 31,897 | 31,248 |
| Gain on sales of land for development, net | (20,522) | (3,246) |
| Bad debts recovery | (69,890) | (37,297) |
| PPP loan forgiveness | (111,140) | (102,810) |
| Donated inventory | (15,810) | (6,272) |
| (Increase) decrease in assets: | | |
| Mortgage receivables, net | 109,748 | (43,076) |
| Other receivables | (25,695) | 16,300 |
| Inventory | (158,262) | 100,268 |
| Other assets | (6,507) | (6,377) |
| Increase (decrease) in liabilities: | | |
| Accounts payable | (4,031) | 7,212 |
| Accrued expenses | 8,414 | (7,635) |
| Deferred revenue | (10,465) | (10,465) |
| Escrow funds payable | 3,719 | (9,600) |
| Net cash provided by operating activities | 356,394 | 362,071 |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | |
| Purchase of property and equipment | - | (4,319) |
| Sale of property and equipment | - | 12,500 |
| Net cash provided by investing activities | - | 8,181 |
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | |
| Proceeds from long-term debt obtained | - | 111,140 |
| Net cash provided by financing activities | - | 111,140 |
| Net change in cash and cash equivalents | 356,394 | 481,392 |
| Cash and cash equivalents, beginning of year | 1,779,322 | 1,297,930 |
| Cash and cash equivalents, end of year | $ 2,135,716 | $ 1,779,322 |
| **NONCASH TRANSACTION:** | | |
| Forgiveness of PPP loan and conversion into a grant | $ 111,140 | $ 102,810 |
| **SUPPLEMENTAL DISCLOSURE OF CASH PAID FOR INTEREST** | $ 55 | $ 48 |

*See independent auditor's report and accompanying notes to the financial statements.*

## NOTE 1 NATURE OF THE ORGANIZATION

Highlands County Habitat for Humanity, Inc. ("Habitat" or the "Organization") became an affiliate of Habitat for Humanity International, Inc. ("HFHI") in 1990 and is a tax-exempt Not-for-Profit organization. Habitat's Program Services include its home construction program and a thrift retail operation (d.b.a. The ReStore), both of which are provided principally to residents in Highlands County, Florida.

## NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of Accounting**

The financial statements of Habitat have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP") and, accordingly, reflect all significant receivables, payables and other liabilities.

**Basis of Presentation**

Habitat has adopted the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 958, *Not-for-Profit Entities*. Under ASC 958, Habitat is required to provide financial statements which are prepared to focus on the Organization as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions. As such, Habitat reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

**Support and Revenue Recognition**

The Organization first determines if a transaction represents an exchange transaction and if so, accounts for the transaction in accordance with FASB ASC 606, *Revenue from Contracts with Customers*, which provides a five-step model for recognizing revenue from contracts with customers as follows:

- Identify the contract with a customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contract
- Recognize revenue when or as performance obligations are satisfied

Habitat's activities are primarily supported through sales of homes, contributions from individual and corporate donors, store product sales, and fundraising activities.

Sale of homes represents homes built by Habitat and are accounted for as exchange transactions. When homes are sold to qualified buyers who finance the purchase, the resulting mortgage notes are zero-interest bearing and discounted based upon prevailing market rates at the inception of the mortgages. The first mortgage gross sale amount is included as the sale of home in the Statements of Activities and the applicable discount from this note is presented as the mortgage discounts and amortization in the Statements of Functional Expenses. Habitat recognizes the income from the sale of homes on the completed contract method upon home closings.

When homes or land are sold to buyers in the form of a cash sale, the gross sale amount is included in the sale of home in the Statements of Activities. There were no such sales during the years ended June 30, 2022 and 2021.

The ReStore sales are recognized as revenue at the time merchandise is transferred to the customer. Historically, sales returns have not been significant.

Gifts and contributions are recorded at their fair market value on the date of receipt.

Contributions received that are designated for future periods or restricted by the donor for specific purposes are reported as increases in net assets with restrictions. When a restriction expires (that is, when the stipulated time restriction ends or purpose restriction is accomplished), net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the Statement of Activities. If the restriction expires in the same accounting period in which the revenue is recognized, the Organization reports the contribution as increases in net assets *without* donor restrictions.

Habitat accounts for grants and contracts as exchange transactions. Revenue is recognized as an increase in the Statements of Activities as stipulated performance is executed, or as expenditures are incurred in accordance with applicable agreements under expenditure reimbursement contracts. A receivable is recorded to the extent contract revenue exceeds payment received. Advances in excess of costs incurred are deferred and recognized as revenue when the related expense is incurred.

Support arising from donated, or in-kind, goods, property, and services is recognized in the financial statements at its fair value. GAAP requires recognition of in-kind services, if such services (1) create or enhance nonfinancial assets or (2) require specialized skills and are provided by individuals possessing those skills, who would typically charge a fee. For the years ended June 30, 2022 and 2021, volunteers provided approximately 11,500 and 5,600 volunteer hours, respectively, to assist the Organization in providing home construction services for which no amount has been recorded in the financial statements because the services did not meet the criteria for recognition under GAAP.

Additionally, Habitat utilizes the services of outside volunteers to perform a variety of tasks that assist the Organization in areas other than construction. The fair value of these services is not recognized in the accompanying financial statements since they do not meet the criteria for recognition under GAAP.

**Cash and Cash Equivalents**

Habitat considers all highly liquid instruments with maturities of three months or less when purchased to be cash equivalents.

**Assets Held in Escrow**

Habitat currently services the mortgage notes on the homes it sells. Included in assets held in escrow are cash amounts received for insurance and property taxes on such homes. These cash amounts are recorded as an asset, which is offset by a related liability.

**Mortgage Notes Receivable**

Sales of homes are recorded at the gross amount of payments to be received over the lives of the mortgages. These payments do not include interest. The notes have been discounted at the prevailing market rate at the inception of the mortgage using the effective interest method over the lives of the mortgages. Mortgages are reported net of amortized cost.

**Allowance for Mortgage Losses**

The allowance for mortgage losses (allowance) is an estimate of mortgage losses inherent in the Habitat's mortgage portfolio. The allowance is established through a provision for mortgage losses which is charged to expense. Additions to the allowance are expected to maintain the adequacy of the total allowance after mortgage losses and mortgage growth. Mortgage losses are charged off against the allowance when management of Habitat determines the mortgage balance to be uncollectible. Cash received on previously charged off amounts is recorded as a recovery to the allowance.

The allowance consists of two primary components, general reserves and specific reserves related to impaired mortgages. The general component covers nonimpaired mortgages and is based on historical losses adjusted for current factors. The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by Habitat over the most recent five years. Habitat places more emphasis, or weight, on the more current quarters in the loss history period. This actual loss experience is adjusted for economic factors based on the risks present for each portfolio segment. These economic factors include consideration of the following: levels of and trends in delinquencies and impaired mortgages; levels of and trends in charge-offs and recoveries; trends in volume and terms of mortgages; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations. These factors are inherently subjective and are driven by the repayment risk associated with each portfolio segment.

A mortgage is considered impaired when, based on current information and events, it is known through legal correspondence that Habitat will be unable to collect the scheduled payments of principal when due according to the contractual terms of the mortgage agreement. Mortgages determined to be impaired are individually evaluated for impairment. When a mortgage is impaired, Habitat measures impairment based on the present value of expected future cash flows discounted at the imputed interest rate (which were the current market rates on the long-term loans at the inception date), except that as a practical expedient, it may measure impairment based on an observable market price, or the fair value of the collateral if collateral-dependent. A mortgage is collateral-dependent if the repayment is expected to be provided solely by the underlying collateral. Habitat has identified sixteen mortgages that were considered impaired as of June 30, 2022.

Under certain circumstances, Habitat will provide borrowers relief through mortgage restructurings. A restructuring of debt constitutes a troubled debt restructuring (TDR) if Habitat for economic or legal reasons related to the borrower's financial difficulties grants a concession to the borrower that it would not otherwise consider. Restructured mortgages typically present an elevated level of credit risk as the borrowers are not able to perform according to the original contractual terms. Mortgages that are reported as TDRs are considered impaired and measured for impairment as described above. During the years ended June 30, 2022 and 2021, there were no mortgages that were modified in troubled debt restructurings.

Habitat assigns a risk rating to all mortgages except pools of homogeneous mortgages and periodically performs detailed internal reviews of all such mortgages over a certain threshold to identify credit risks and to assess the overall collectability of the portfolio. During the internal reviews, management monitors and analyzes the financial condition of borrowers and guarantors, trends in the industries in which the borrowers operate and the fair values of collateral securing the mortgages. These credit quality indicators are used to assign a risk rating to each individual mortgage.

The risk ratings can be grouped into five major categories, defined as follows:

**Pass:** A pass mortgage is a credit with no existing or known potential weaknesses deserving of management's close attention.

**Special Mention:** Mortgages classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, this potential weakness may result in deterioration of the repayment prospects for the mortgage or of Habitat's credit position at some future date. Special Mention mortgages are not adversely classified and do not expose Habitat to sufficient risk to warrant adverse classification.

**Substandard:** Mortgages classified as substandard are not adequately protected by the current net worth and paying capacity of the borrower or of the collateral pledged, if any. Mortgages classified as Substandard have a well-defined weakness or weaknesses that jeopardize the repayment of the debt. Well defined weaknesses include a borrower's lack of marketability, inadequate cash flow or collateral support, failure to complete construction on time, or the failure to fulfill economic expectations. They are characterized by the distinct possibility that Habitat will sustain some loss if the deficiencies are not corrected.

**Doubtful:** Mortgages classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or repayment in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

**Loss:** Mortgages classified as loss are considered uncollectible and charged off immediately.

If a foreclosure occurs, Habitat, historically, resells the home at cost plus incidental expenses for repairs and maintenance. Therefore, Habitat has not recorded an allowance for substandard or doubtful mortgages. The allowance for bad debt covers delinquent escrow payments for insurance and taxes. The allowance as of June 30, 2022 and 2021 was approximately $107,000 and $177,000, respectively. Habitat maintains a separate valuation allowance for each portfolio segment. As of June 30, 2022 and 2021, the only portfolio segment held by Habitat is residential real estate.

**Residential Real Estate:** The degree of risk in residential mortgage lending depends primarily on the mortgage amount in relation to collateral value, the interest rate and the borrower's ability to repay in an orderly fashion. These mortgages generally possess a lower inherent risk of loss than other real estate portfolio segments. Economic trends determined by unemployment rates and other key economic indicators are closely correlated to the credit quality of these mortgages.

Although management believes the allowance to be adequate, ultimate losses may vary from its estimates. At least quarterly, the board of directors (the “Board”) reviews the adequacy of the allowance, including consideration of the relevant risks in the portfolio, current economic conditions and other factors. If the Board and management determine that changes are warranted based on those reviews, the allowance is adjusted.

**Inventory**

The ReStore inventory, which consists of merchandise donated by building supply stores and by individuals in the community, is stated at lower of cost or net realizable value. With few exceptions, the donated items are used, resulting in an undeterminable net realizable value. For these items, inventory is not recorded. The sale of these items, referred to as The ReStore sales on the Statements of Activities, is recorded at point of sale.

Habitat’s inventory also includes completed homes for sale, construction in progress, land for development, and land held for resale. The inventory items are recorded at the lower of cost, as determined on a specific identification basis, or net realizable value. Construction in progress consists of lots and construction costs of houses not completed as of June 30, 2022 and 2021. Costs incurred in conjunction with home construction are capitalized and expensed when the home is sold.

**Property and Equipment**

Property and equipment are recorded at cost or, if donated, the estimated fair value at the date of donation. Habitat has a policy of capitalizing expenditures for property and equipment with costs greater than $1,000. Depreciation is provided using the straight-line method over the estimated useful lives of assets which range from five to 39 years. If donors stipulate how long the assets must be used or restrict the use of such assets for a specific purpose, the contributions are recorded as restricted support. In the absence of such stipulations, gifts of property are recorded as unrestricted support.

**Impairment of Long-Lived Assets**

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amounts of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment loss to be recognized is measured by the amount by which the carrying amount of the asset exceeds its fair value.

**Paycheck Protection Program Loans**

Amounts received by the Organization from the Small Business Administration's Paycheck Protection Program (the "PPP") are accounted for by using the debt method. Under the debt method (FASB ASC 470, *Debt*), Habitat records PPP loans as financial liabilities. The financial liabilities are eliminated only after the have been either forgiven or paid in full to the creditor. If forgiven, the loan is converted into a grant.

**Fair Value Measurements**

In accordance with FASB ASC 820, *Fair Value Measurement*, Habitat measures fair value using a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability. Inputs may be observable or unobservable and refer broadly to the assumptions that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability, and are developed based on the best information available in the circumstances.

The objective of a fair value measurement is to determine the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). Accordingly, the fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Habitat may use valuation techniques consistent with the market income and cost approaches to measure fair value.

The inputs used to measure fair value are categorized into the following three categories:

Level 1 — Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2 — Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in inactive markets. Inputs other than quoted prices that are observable for the asset or liability and inputs that are derived principally from or corroborated by observable market data are also included. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability

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

Habitat has the option to elect to measure financial instruments at fair value for the initial and subsequent measurement for certain financial assets and liabilities on an instrument-by-instrument basis. Habitat has not elected to measure any existing financial instruments at fair value at June 30, 2022 and 2021. However, Habitat may elect to measure newly acquired financial instruments at fair value in the future.

## Net Assets

Habitat's net assets for the years ended June 30, 2022 and 2021 are classified into two categories: (1) net assets without restrictions, which include no donor-imposed restrictions and (2) net assets with restrictions, which include donor-imposed restrictions that will expire in the future.

The net assets without restrictions consist of operating funds available for any purpose authorized by the Board.

Net assets with restrictions consist of funds to be used for the construction of Habitat homes and The Restore repairs. These funds are from gifts in which the donor has stipulated, as a condition of the gift, restrictions on how or when the gift may be spent. As of June 30, 2022 and 2021, Habitat had approximately $264,000 and $14,000 of net assets with restrictions, respectively.

## Concentration of Credit Risk

Financial instruments that potentially subject Habitat to concentrations of credit risk consist primarily of bank deposits and mortgages receivable. Habitat has the ability to foreclose on delinquent mortgages, reducing the risk of loss to the Organization.

Habitat maintains bank accounts with balances which, at times, exceed federally insured limits. As of June 30, 2022 and 2021, Habitat had approximately $1,915,000 and $1,539,000, respectively, of uninsured cash. Habitat has not experienced any losses on such accounts and by managing the deposit concentration risk by placing cash with a creditworthy financial institution, management believes it is not exposed to any significant risk on bank deposit accounts.

## Use of Estimates

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

## Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the Statements of Functional Expenses that can be identified with home construction and The ReStore are charged directly to their respective program service. Expenses identified directly with administration and fundraising are charged directly to their respective supporting service. Indirect costs that benefit multiple functional areas have been allocated among the functional areas based on time spent by employees on each functional area or based on the Organization's square footage analysis for all indirect, occupancy-related expenses.

## Reclassifications

Certain amounts in the prior year financial statements were reclassified to conform to the presentation in the current year. These reclassifications had no change on prior year reported changes in net assets or end of year net assets.

**Federal Income Tax**

Habitat is exempt from federal and state income taxes under Section 501(c)(3) and, accordingly, no provision for income taxes has been made in the accompanying financial statements. Management has evaluated Habitat's tax position and concluded that no uncertain tax positions have been taken that would require adjustment to the financial statements to comply with the provisions of the Income Tax Topic of the FASB ASC. With few exceptions, Habitat is subject to income tax examinations by the U.S. federal or state tax authorities up to three years after tax returns are filed.

**Advertising**

Advertising costs are charged to operations when incurred. During the years ended June 30, 2022 and 2021, Habitat incurred approximately \$5,000 and \$2,000, respectively, related to the advertisements for The Restore and various fundraising activities.

**Recent Accounting Pronouncements Adopted**

In 2020, Accounting Standards Update No. 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets* ("ASU 2020-07"). This ASU is intended to increase transparency on how contributed nonfinancial assets (also referred to as in-kind contributions or gifts-in-kind) received by nonprofits are to be used and how they are valued. There is, however, no impact on the accounting for contributed nonfinancial assets. The Organization adopted ASU 2020-07 during the year ended June 30, 2022.

**Recent Accounting Pronouncements Not Yet Adopted**

In 2016, ASU No. 2016-02, *Leases* ("ASU 2016-02") was issued. The amendments in ASU 2016-02 affect any entity that either enters into leasing contracts. This ASU supersedes the revenue recognition requirements in ASC 840, *Leases*, and most industry-specific guidance.

The core principle of the guidance is to increase transparency and comparability among organizations by recognizing rights and obligations of leasing activities as assets and lease liabilities on the balance sheet. Under this ASU, lease assets and lease liabilities should be recognized for those leases previously classified as operating leases.

ASU 2016-02 is effective for annual reporting periods beginning after December 15, 2021. The Organization will adopt this new standard effective for the fiscal year ending June 30, 2023 and shall disclose qualitative and quantitative information.

At this time, it is not known, nor can it be reasonably estimated, what the impact of this standard's adoption will have on the Organization. Management believes the effect on current accounting policies will be immaterial as there are no material lease contracts.

**Subsequent Events**

In accordance with ASC 855, *Subsequent Events*, the Organization evaluated subsequent events through January 5, 2023, the date the financial statements were available for issue.

## NOTE 3 LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

Habitat's financial assets available within one year of the Statements of Financial Position date to meet cash needs for general expenditure were as follows:

| | June 30, 2022 | June 30, 2021 |
|---|---|---|
| Current financial assets at year-end | $ 2,344,515 | $ 1,944,203 |
| Less those unavailable for general expenditures within one year, due to: | | |
| Donor-restricted to build & rehab homes | 264,251 | 13,755 |
| Contract-restricted (see Note 4) | 104,936 | 100,965 |
| Current financial assets available to meet cash needs for general expenditures within one year | $ 1,975,328 | $ 1,829,483 |

Habitat has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. In addition, as more fully described in Note 9, *Line of Credit*, Habitat has a revolving line of credit with a lending institution in the amount of $750,000, which exists to be used for the construction of a single family housing project known as Mason's Ridge Homeowner's Association, Inc. ("Mason's Ridge", "Mason's Ridge Association", or the "Association").

## NOTE 4 RESTRICTED CASH AND CASH EQUIVALENTS

Habitat collects escrow payments from its mortgagees to pay real estate taxes and property insurance. Escrow payments are deposited into a bank account restricted to escrow transactions. The balances of these bank accounts as of June 30, 2022 and 2021 were approximately $105,000 and $101,000, respectively.

## NOTE 5 MORTGAGES RECEIVABLE

For the years ended June 30, 2022 and 2021, Habitat held 79 and 82 mortgages receivable, respectively, for properties it had sold to qualified buyers. As of June 30, 2022, these mortgages have maturity dates ranging from one to 30 years. The notes on these mortgages are non-interest bearing, payable in equal monthly installments, and are secured by deeds of trust on the properties. The payments collected on these mortgages are used to help fund future home construction.

Mortgages receivable as of June 30 were as follows:

| | June 30, 2022 | June 30, 2021 |
|---|---|---|
| Mortgage notes receivable at face value | $ 2,732,740 | $ 2,879,290 |
| Less: Unamortized discounts on mortgage notes | (725,797) | (762,599) |
| Less: Allowance for uncollectibles | (107,156) | (177,046) |
| | 1,899,787 | 1,939,645 |
| Less: Amounts due within one year | (147,444) | (148,933) |
| Mortgage notes receivable, due after one year | $ 1,752,343 | $ 1,790,712 |

Principal payments on the mortgages receivable balance are expected to be received as follows:

| Year ending June 30, | |
|---|---|
| 2023 | $ 233,277 |
| 2024 | 226,695 |
| 2025 | 219,834 |
| 2026 | 207,647 |
| 2027 | 194,702 |
| Thereafter | 1,650,585 |
| Total | $ 2,732,740 |

During the years ended June 30, 2022 and 2021, Habitat sold one property and three properties, respectively, to qualified buyers at a zero-interest mortgage which the Organization is financing. For the year ended June 30, 2022, the sales and the resulting discount on the sales of these homes were $145,000 and approximately $55,000, respectively.

Periodically, Habitat sells individually identified mortgages receivable to a financial institution. Habitat continues to service these receivables by collecting payments from homeowners on behalf of the purchasing financial institutions. Homeowner payments are remitted by Habitat to the purchasing financial institutions in arrears. Accordingly, as of June 30, 2022 and 2021, Habitat has reported an agency payable liability of approximately $230,000 and $326,000, respectively. Habitat has reported a corresponding mortgages receivable – held for other account for these amounts on the Statements of Financial Position.

During the years ended June 30, 2022 and 2021, no mortgages were sold to financial institutions. For the mortgages that had been sold to financial institutions prior to the year ended June 30, 2021, the proceeds from the sales exceeded the net mortgage receivable balance. This gain was deferred at the time of these sales and is being recognized over the life of the mortgages. As of June 30, 2022 and 2021, the amount deferred was approximately $53,000 and $63,000, respectively.

## NOTE 6 FAIR VALUE MEASUREMENTS OF LAND INVENTORY

Building lots held for use in the construction of homes and sale with a carrying amount as of June 30 consisted of the following:

June 30, 2022

| | Significant Unobservable Inputs (Level 3) |
|---|---|
| Land for development | $ 558,873 |
| Land for resale | 17,776 |
| Total inventory | $ 576,649 |

June 30, 2021

| | Significant Unobservable Inputs (Level 3) |
|---|---|
| Land for development | $ 596,065 |
| Land for resale | 17,776 |
| Total inventory | $ 613,841 |

The table below is a summary of the changes in the fair value of Level 3 assets:

| | June 30, 2022 | June 30, 2021 |
|---|---|---|
| Balances at beginning of year | $ 613,841 | $ 649,952 |
| Additions | - | 5,875 |
| Change in value | (1,054) | - |
| Sale or transfer to construction in progress | (36,138) | (41,986) |
| Balance at end of year | $ 576,649 | $ 613,841 |

## NOTE 7 PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

| | June 30, 2022 | June 30, 2021 |
|---|---|---|
| Buildings and improvements | $ 645,495 | $ 645,495 |
| Fixtures and equipment | 271,916 | 271,916 |
| | 917,411 | 917,411 |
| Less: accumulated depreciation | (468,925) | (437,028) |
| Total property and equipment, net | $ 448,486 | $ 480,383 |

Depreciation expense for the years ended June 30, 2022 and 2021 were approximately $32,000 and $31,000, respectively.

## NOTE 8 PAYCHECK PROTECTION PROGRAM LOANS

In January 2021 and April 2020, the Organization received loan proceeds from a financial institution in the amounts of approximately $111,000 and $103,000, respectively, under the PPP, a program established under Division A, Title I of the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”). In accordance with the PPP funding agreement, the Organization’s loan would be forgiven and converted into a grant once the Organization meets certain criteria related to its payroll, utility, and interest expenses over a specified measurement period. If not forgiven, the loan, plus interest at approximately 1.00% per year, would be due 24 months from the loan date.

Habitat satisfied its required debt obligations of the $111,000 loan resulting in full forgiveness of the loan in July 2021. Accordingly, Habitat recognized approximately $111,000 as a grant for the year ended June 30, 2022 on the Statements of Activities.

Habitat satisfied its required debt obligations of the $103,000 loan resulting in full forgiveness of the loan in January 2021. Accordingly, Habitat recognized approximately $103,000 as a grant for the year ended June 30, 2021 on the Statements of Activities.

## NOTE 9 LINE OF CREDIT

Habitat has a revolving line of credit with a lending institution. The line is in the amount of $750,000 and exists to be used for the construction of the Mason’s Ridge project. The line of credit was issued in August 2011 and originally matured in August 2012. It has been renewed several times with the current renewal occurring in October 2022.

The line of credit is collateralized by real estate held by Habitat at Mason’s Ridge and bears a 5.75% annual rate of interest. There were no outstanding borrowings as of June 30, 2022 and 2021. Regular monthly payments of all accrued unpaid interest are due on the 24th of each month. Outstanding principal plus all accrued unpaid interest is due upon its August 2024 maturity.

## NOTE 10 PROPERTY LIENS

Habitat has received funds from the State Housing Initiative Program, which is passed through Highlands County, to assist in the construction of homes. This funding is forgiven ratably each year over a 10-year period, provided that the property continues to be occupied by low-income individuals. Habitat has not recorded this lien as a liability since management considers it unlikely Habitat will ever have to repay these amounts.

Habitat holds a second mortgage receivable on the properties equal to the difference between the sale price of the home and the appraised value. The second mortgage receivable is reduced by 10% for each year the family lives in the home, beginning with the sixth year. Habitat has not recorded this second mortgage as a receivable since management considers it unlikely Habitat will ever receive these amounts.

## NOTE 11 MASON'S RIDGE DEVELOPMENT

In 2010, Habitat began construction of the Mason's Ridge affordable housing development. At full build-out, Mason's Ridge plans to provide 60 homes to very low-, low-, and moderate-income families in Highlands County. In 2010, the Board of County Commissioners of Highlands County donated a vacant parcel of land valued at approximately $231,000. In 2011, the Board of County Commissioners of Highlands County contributed $500,000 to Habitat for the construction of infrastructure on the Mason's Ridge project. Habitat also received a $300,000 grant from HUD that was used to fund construction of the first 12 homes. Habitat provides assistance to potential homeowners with application processing and other administrative aspects of obtaining one of these homes. Upon completion of the home, however, the homeowner obtains financing from the United States Department of Agriculture, who completes the underwriting and services the loan.

Mason's Ridge Association was incorporated under the laws of the State of Florida as a not-for-profit corporation on February 4, 2011. The Association which operates under Chapter 720, Florida Statutes, is responsible for the management, maintenance, and operation of its common areas.

Habitat, the developer of Mason's Ridge, recorded the Declaration of Covenants, Conditions, Restrictions and Easements (the "Declaration") of Mason's Ridge on February 24, 2011. In accordance with Article IV, Section 12 of the Declaration, Habitat is obligated to pay the annual assessment, up to the amount required to operate the Association, created by the short fall in revenue from non-developer owned units. This arrangement, referred to as developer deficit funding, is allowed pursuant to Florida Statutes, Section 720.308. In 2022 and 2021, an annual assessment of $25 was levied against homeowners.

During the years ended June 30, 2022 and 2021, Habitat sold one home and three homes, respectively.

## NOTE 12 CONTRIBUTED NONFINANCIAL ASSETS

Contributed nonfinancial assets included in the accompanying statements of activities are as follows for each of the years ended June 30:

| Year Ended June 30, 2022 | Program | General Administration | General Fundraising | Total |
|---|---|---|---|---|
| Construction materials | $ 14,161 | $ - | $ - | $ 14,161 |
| Website management | - | - | 3,750 | 3,750 |
| Appliances | 1,245 | - | - | 1,245 |
| Supplies | 404 | - | - | 404 |
| | $ 15,810 | $ - | $ 3,750 | $ 19,560 |

Year Ended June 30, 2021

| | Program | General Administration | General Fundraising | Total |
|---|---|---|---|---|
| Land for development | $ 5,875 | $ - | $ - | $ 5,875 |
| Supplies | 273 | - | - | 273 |
| Labor | 124 | - | - | 124 |
| | $ 6,272 | $ - | $ - | $ 6,272 |

All donated services and assets were utilized by the Organization's programs and supporting services. There were no donor-imposed restrictions associated with the donated services and assets. Donated professional services capitalized in the construction of houses are valued at the standard hourly rates charged for those services. Donated supplies and building materials are valued at the estimated wholesale prices that would be received for selling similar products in the United States.

## NOTE 13 RELATED-PARTY TRANSACTIONS

The Organization receives guidance in administration and program support from HFHI. As a result, HFHI recommends that its affiliates contribute a tithe equal to 10% of unrestricted contributions to an affiliate organization outside the United States. For each of the years ended June 30, 2022 and 2021, Habitat tithed $5,000.

## NOTE 14 COMMITMENTS AND CONTINGENCIES

The Organization entered into several contractual agreements, generally cancelable with seven to 30 days written notice, with outside vendors and service providers.

In March 2020, the World Health Organization declared COVID-19 a global pandemic and recommended containment and mitigation measures worldwide. These measures could negatively impact the Organization's operations, vendors and donors. The Organization cannot reasonably estimate the length or severity of this pandemic, or the extent to which the disruption may materially impact the Organization's operations or cash flows.