

**FLOWER CITY HABITAT FOR
HUMANITY, INC.**

**Financial Statements
as of June 30, 2020
Together with
Independent Auditor's Report**

INDEPENDENT AUDITOR'S REPORT

February 1, 2021

To the Board of Directors of
Flower City Habitat for Humanity, Inc.:

We have audited the accompanying financial statements of Flower City Habitat for Humanity, Inc. (a New York non-profit corporation), which comprise the balance sheet as of June 30, 2020, and the related statements of activities and change in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the 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.

Auditor's 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.

INDEPENDENT AUDITOR'S REPORT (Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Flower City Habitat for Humanity, Inc. as of June 30, 2020 and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Flower City Habitat for Humanity, Inc.'s 2019 financial statements, and our report dated November 26, 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.

RDG+Partners CPAs PLLC

Pittsford, New York

FLOWER CITY HABITAT FOR HUMANITY, INC.

BALANCE SHEET

JUNE 30, 2020

(With Comparative Totals for 2019)

	<u>2020</u>	<u>2019</u>
ASSETS		
CURRENT ASSETS:		
Cash, cash equivalents and restricted cash:		
Operating	\$ 386,869	\$ 154,472
Restricted cash	<u>128,988</u>	<u>15,583</u>
Total cash, cash equivalents and restricted cash	515,857	170,055
Current portion of mortgages receivable	154,563	168,002
Grants receivable, net	414,499	486,898
Other receivables	34,394	-
Other current assets	<u>3,700</u>	<u>12,338</u>
Total current assets	<u>1,123,013</u>	<u>837,293</u>
PROPERTY AND EQUIPMENT, net	<u>569,433</u>	<u>648,326</u>
OTHER ASSETS:		
Mortgages receivable, net of current portion	2,204,423	2,204,971
Construction in progress, net	152,080	803,674
Homes available for sale, net	691,585	382,894
Investments	206,267	237,709
Assets that are limited to use	<u>-</u>	<u>5,240</u>
Total other assets	<u>3,254,355</u>	<u>3,634,488</u>
	<u>\$ 4,946,801</u>	<u>\$ 5,120,107</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Current portion of notes payable - affiliate	\$ 35,386	\$ 54,184
Line-of-credit	-	300,000
Accounts payable	15,642	300,665
Accrued expenses and other current liabilities	88,586	55,401
Deferred revenue	<u>26,310</u>	<u>-</u>
Total current liabilities	165,924	710,250
NON-CURRENT LIABILITIES:		
Notes payable - affiliate, net of current portion	267,753	303,140
Long-term debt	<u>292,800</u>	<u>-</u>
Total liabilities	<u>726,477</u>	<u>1,013,390</u>
NET ASSETS:		
Without donor restrictions	3,599,262	3,642,422
With donor restrictions	<u>621,062</u>	<u>464,295</u>
Total net assets	<u>4,220,324</u>	<u>4,106,717</u>
	<u>\$ 4,946,801</u>	<u>\$ 5,120,107</u>

The accompanying notes are an integral part of these financial statements.

FLOWER CITY HABITAT FOR HUMANITY, INC.

**STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2020**

(With Comparative Totals for 2019)

	2020			2019
	Without Donor Restrictions	With Donor Restrictions	Total	
SUPPORT:				
House sponsorships	\$ 74,071	\$ 494,993	\$ 569,064	\$ 521,912
Fundraising and donations	961,410	113,872	1,075,282	812,625
Homebuilding grants	827,068	-	827,068	708,848
Private grants	50,000	-	50,000	-
Other support	26,561	-	26,561	22,897
Net assets released from restriction	444,061	(444,061)	-	-
Total support	2,383,171	164,804	2,547,975	2,066,282
REVENUES:				
Sale of homes	802,000	-	802,000	548,443
Mortgage receivable discount amortization	189,847	-	189,847	184,515
ReStore income	677,124	-	677,124	838,388
Investment income (loss), net	-	(8,037)	(8,037)	10,783
Loss on sale of property and equipment	(194)	-	(194)	-
Home repair program	19,692	-	19,692	-
Rental income	24,090	-	24,090	20,386
Miscellaneous income	21,616	-	21,616	11,129
Total revenues	1,734,175	(8,037)	1,726,138	1,613,644
Total support and revenue	4,117,346	156,767	4,274,113	3,679,926
EXPENSES:				
Cost of homes sold	1,650,663	-	1,650,663	825,636
Discount on mortgages receivable	305,996	-	305,996	193,208
Change in discount on:				
Homes available for sale	290,159	-	290,159	338,112
Construction in progress	(389,664)	-	(389,664)	180,010
Program services:				
ReStore	830,661	-	830,661	838,563
Construction overhead and other	546,964	-	546,964	552,958
General and administrative	534,644	-	534,644	434,596
Fundraising	391,083	-	391,083	286,232
Total expenses	4,160,506	-	4,160,506	3,649,315
CHANGE IN NET ASSETS	(43,160)	156,767	113,607	30,611
NET ASSETS, beginning of year	3,642,422	464,295	4,106,717	4,076,106
NET ASSETS, end of year	\$ 3,599,262	\$ 621,062	\$ 4,220,324	\$ 4,106,717

The accompanying notes are an integral part of these financial statements.

FLOWER CITY HABITAT FOR HUMANITY, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2020

(With Comparative Totals for 2019)

	2020						<u>2019</u>
	Program			General and Administrative	Fundraising	Total	
	ReStore	Construction Overhead and Other	Total Program				
Payroll and payroll taxes	\$ 363,544	\$ 224,940	\$ 588,484	\$ 254,141	\$ 130,720	\$ 973,345	\$ 963,770
Fundraising	-	-	-	-	168,679	168,679	96,518
Employee benefits	46,402	28,711	75,113	32,437	16,685	124,235	134,282
Small tools and supplies	94,641	25,126	119,767	-	-	119,767	123,178
Insurance	40,100	42,307	82,407	23,757	12,732	118,896	99,669
Rent expense	105,750	-	105,750	7,200	-	112,950	110,550
Equipment maintenance	20,204	10,030	30,234	43,258	17,573	91,065	77,428
Depreciation and amortization	42,986	25,952	68,938	7,231	2,530	78,699	78,503
Temporary help and consulting	-	8,300	8,300	34,495	14,883	57,678	22,800
Bad debt expense	-	40,007	40,007	-	-	40,007	-
Interest	6,121	9,773	15,894	22,480	-	38,374	23,928
Legal and accounting	-	18,392	18,392	19,500	-	37,892	17,345
Utilities	28,714	-	28,714	7,257	-	35,971	42,636
Promotion and public relations	16,506	299	16,805	122	18,500	35,427	38,777
Auto	16,347	10,914	27,261	-	-	27,261	21,640
Building repair and maintenance	12,026	791	12,817	13,031	-	25,848	16,482
Habitat International - tithe and fees	-	25,050	25,050	-	-	25,050	25,000
Office supplies	2,538	491	3,029	17,020	841	20,890	17,443
Bank charges	13,716	20	13,736	2,377	379	16,492	21,697
Telephone	5,058	5,490	10,548	4,139	1,500	16,187	15,488
Seminar and training	641	481	1,122	6,831	4,251	12,204	19,419
Mortgage outsourcing fees	-	6,515	6,515	-	-	6,515	12,775
Travel and entertainment	135	2,141	2,276	1,272	1,303	4,851	9,845
Miscellaneous	15,232	61,234	76,466	38,096	507	115,069	123,176
	<u>\$ 830,661</u>	<u>\$ 546,964</u>	<u>\$ 1,377,625</u>	<u>\$ 534,644</u>	<u>\$ 391,083</u>	<u>\$ 2,303,352</u>	<u>\$ 2,112,349</u>

The accompanying notes are an integral part of these financial statements.

FLOWER CITY HABITAT FOR HUMANITY, INC.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2020
(With Comparative Totals for 2019)

	<u>2020</u>	<u>2019</u>
CASH FLOW FROM OPERATING ACTIVITIES:		
Support and contributions received	\$ 2,573,155	\$ 1,610,384
Mortgage payments received	338,309	260,071
Proceeds from sale of homes	362,840	297,315
Cash received from ReStore sales	677,124	838,388
Interest and other income received	109,773	31,515
Cash paid to suppliers	(1,428,235)	(1,624,427)
Cash paid for salaries	(951,439)	(963,643)
Cash paid for operating expenses	(542,433)	(452,635)
Cash paid for fundraising	(255,842)	(156,850)
Cash paid for ReStore expenses	(461,096)	(432,503)
Interest paid	<u>(38,374)</u>	<u>(19,419)</u>
Net cash flow from operating activities	<u>383,782</u>	<u>(611,804)</u>
CASH FLOW FROM INVESTING ACTIVITIES:		
Deposit to investments, net	23,405	27,036
Purchases of property and equipment	<u>-</u>	<u>(63,519)</u>
Net cash flow from investing activities	<u>23,405</u>	<u>(36,483)</u>
CASH FLOW FROM FINANCING ACTIVITIES:		
(Repayments) borrowings on line-of-credit, net	(300,000)	300,000
Repayment of notes payable - affiliate	(54,185)	(43,823)
Borrowings of notes payable - affiliate	-	210,000
Borrowings of long-term debt	<u>292,800</u>	<u>-</u>
Net cash flow from financing activities	<u>(61,385)</u>	<u>466,177</u>
CHANGE IN CASH, CASH EQUIVALENTS		
AND RESTRICTED CASH	345,802	(182,110)
CASH, CASH EQUIVALENTS AND RESTRICTED CASH:		
Beginning of year	<u>170,055</u>	<u>352,165</u>
End of year	<u>\$ 515,857</u>	<u>\$ 170,055</u>

The accompanying notes are an integral part of these financial statements.

FLOWER CITY HABITAT FOR HUMANITY, INC.

STATEMENT OF CASH FLOWS (Continued)

FOR THE YEAR ENDED JUNE 30, 2020

(With Comparative Totals for 2019)

	<u>2020</u>	<u>2019</u>
CASH FLOW FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 113,607	\$ 30,611
Adjustments to reconcile change in net assets to net cash flow from operating activities:		
Depreciation and amortization	78,699	78,503
Discount on mortgages receivable	305,996	193,208
Amortization of discount on mortgages receivable	(189,847)	(184,515)
Change in discount on homes available for sale	290,159	338,112
Change in discount on construction in progress	(389,664)	180,010
Investment income, net	8,037	(10,783)
Bad debt expense	40,007	-
Loss on sale of property and equipment	194	-
Change in:		
Mortgages receivable	(102,162)	28,925
Other receivables	(34,394)	-
Grants receivable	32,392	(455,898)
Other current assets	8,638	(2,728)
Construction in progress	1,041,258	(390,262)
Homes available for sale	(598,850)	(596,887)
Assets that are limited to use	5,240	-
Accounts payable	(285,023)	159,230
Accrued expenses and other current liabilities	33,185	20,670
Deferred revenue	26,310	-
Net cash flow from operating activities	<u>\$ 383,782</u>	<u>\$ (611,804)</u>

The accompanying notes are an integral part of these financial statements.

FLOWER CITY HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020

(With Comparative Totals for 2019)

1. ORGANIZATION

Flower City Habitat for Humanity, Inc. (the Organization) was established and incorporated in November 1984. The Organization is a non-profit corporation whose purpose is to develop a better habitat in which to work and live for economically disadvantaged people. This is accomplished by working with these people to build or rehabilitate homes and subsequently providing non-interest-bearing mortgages on these residences.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting -

The financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States (GAAP).

Comparative Information -

The accompanying financial statements include certain prior-year summarized comparative information in total but not by net asset or functional class. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Organization's audited financial statements for the year ended June 30, 2019, from which the summarized information was derived.

Accounting Pronouncement Adopted -

On November 17, 2016, FASB issued Accounting Standards Update (ASU) 2016-18, Statement of Cash Flows (Topic 230) - "*Restricted Cash*." The update addresses the lack of consistency in statements of cash flows in reporting changes in restricted cash amounts. As required by the update, a statement of cash flows should explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. The Organization has implemented ASU 2016-18 as of July 1, 2019 and has adjusted the presentation in the accompanying financial statements accordingly. The ASU has been applied retrospectively to all periods presented.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting Pronouncement Adopted (Continued) -

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09 (ASC 606) "*Revenue from Contracts with Customers*." ASC Topic 606 supersedes the revenue recognition requirements in Accounting Standards Codification (ASC) Topic 605 "Revenue Recognition" (ASC 605), and requires entities to recognize revenue when control of promised goods or services is transferred to customers at an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services.

ASC 606 was effective for the Organization beginning on July 1, 2019. In consideration of the adoption of this accounting pronouncement, the Organization determined that there was no impact on previously reported net assets of the Organization, and no reclassifications of assets or liabilities in the accompanying balance sheets were required.

In June 2018, the FASB issued Accounting Standards Update (ASU) 2018-08 (ASC 958) "*Contributions Received and Contributions Made*." ASU 2018-08 clarifies types of revenue to be recognized under the guidance outlined in ASC Topics 606 or 958. ASU 2018-08 requires an evaluation to determine (1) transactions that should be characterized as an exchange transaction or as a contribution, and (2) whether contributions are conditional.

The Organization adopted the provisions of ASU 2018-08 on July 1, 2019. The implementation of the new standard did not have a material impact on the Organization's measurement or recognition of revenue.

Net Asset Classifications -

At June 30, 2020 and 2019, the Organization reported net assets as follows:

- Without Donor Restrictions - Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.
- With Donor Restrictions - Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. All donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, 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 restriction.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash, Cash Equivalents and Restricted Cash -

The Organization's cash, cash equivalents, and restricted cash consist of bank deposit and money market accounts. These accounts may, at times, exceed federally insured limits. Restricted cash is held in investment accounts and is to be used for future tithing and building operations. The Organization has not experienced any losses in such accounts and does not believe it is exposed to any significant credit risk with respect to cash and cash equivalents.

Grants Receivable -

Grants receivable consists of Government and New York State grants awarded to the Organization to assist in subsidizing the cost of homebuilding. Grant revenue is earned by the Organization upon the completion of applicable grant related projects. As of June 30, 2020 and 2019, there was \$414,499 and \$486,898, respectively, of grants that had not been received by the Organization as of year-end. Balances that are still outstanding after management has used reasonable collection efforts are written off. The allowance for doubtful accounts on grants receivable was \$40,000 at June 30, 2020. No allowance for doubtful accounts on grants receivable was considered necessary at June 30, 2019.

Property and Equipment -

It is the Organization's policy to capitalize property and equipment over \$5,000. Purchased property and equipment is stated at cost and depreciated using the straight-line method. The assets are depreciated over their estimated useful lives, ranging from three to thirty-nine years. Donations of property and equipment are recorded as contributions at their estimated fair value. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose.

Construction in Progress -

Construction in progress consists of homes owned by the Organization that are currently under construction or renovation. These homes are valued at the lower of cost or anticipated sales price, with the discount reserve being the difference between the total costs and the anticipated sales price. The discount reserve on construction in progress was \$389,664 at June 30, 2019. No reserve on construction in progress was considered necessary at June 30, 2020.

Homes Available for Sale -

Homes available for sale consist of homes owned by the Organization that are valued at the lower of cost or anticipated sales price, with the discount reserve being the difference between the total costs and the anticipated sales price. As of the statement of financial position date, these homes are either awaiting closing or the current tenants are in a probationary period prior to being eligible for ownership. The discount reserve on homes available for sale totaled \$628,272 and \$338,113 at June 30, 2020 and 2019, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Mortgages Receivable -

In accordance with instructions from Habitat for Humanity International, Inc., the Organization does not charge interest on the mortgages on houses sold to homeowners. The Organization records the mortgages at the present value of the note payments to be received in the future. Imputed rates of interest that are used in computing the discount vary between 7.38% and 9.00% depending on the origination date of the mortgage and are provided to the Organization by Habitat for Humanity International, Inc. on an annual basis. The difference between the face amount of the mortgage and its present value is accounted for as a discount and charged to expense in the initial year of the mortgage. The discount is then amortized over the life of the mortgage using the interest method and is reported as mortgage discount amortization revenue in the statement of activities and change in net assets.

Investments -

The Organization's title and building reserve funds represent cash and investments restricted for certain purposes. The investments consist of money market, equities and mutual funds. The restricted cash amounts are held in bank deposit accounts.

The Organization's investments are exposed to various risks, such as interest rate, market and credit risk. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the value of investments will occur in the near term and that such changes could materially affect the amounts reported in the accompanying financial statements.

All of the Organization's investments are measured at fair value on a recurring basis utilizing level one inputs, as defined in the fair value measurement section of Note 2.

Revenue Recognition - Exchange Transactions -

Program revenues are recognized when control of the promised services is transferred to the Organization's customers, in an amount that reflects the consideration the Organization expects to be entitled to in exchange for those services. To do this, the Organization performs the following five steps as outlined in ASC 606: (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract, and (v) recognize revenue when (or as) the Organization satisfies a performance obligation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition - Exchange Transactions (Continued) -

Revenue Types -

The Organization has the following revenue types that qualify as exchange transactions:

Sale of homes – The Organization builds and sells houses to low-income individuals. Such revenues are recognized at the date of closing for the house as this is the point in time the Organization has determined to satisfy their performance obligation.

ReStore – The Organization sells various donated and purchased goods to individuals through their ReStore locations. Such revenues are recognized at the date of sale as this is the point in time the Organization has determined to satisfy their performance obligation.

Significant Judgments -

Determining whether variable consideration (if applicable) should be reflected in the contract's transaction price may require judgment as to the probability that a significant reversal of such consideration will not occur when the variable consideration is resolved.

Practical Expedients -

The Organization has applied certain practical expedients in its adoption and application of ASC 606, as follows:

- The Organization does not evaluate a contract for a significant financing component if payment is expected to be received within one year or less from the transfer of the promised services to the client.
- The Organization generally expenses costs incurred to obtain a contract when the amortization period would have been one year or less.

Sales and Use Tax -

At times, the Company collects and remits sales and use taxes. These taxes are reported on a net basis in the accompanying statements of activities, and therefore do not impact reported amounts of revenue and expenses.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other Support and Revenue -

Contributions are recognized when cash, securities, or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met. Contributions that are expected to be received in future years are recorded at their present value. Contributions are recorded as unrestricted unless they are subject to donor restrictions or are required to be used or expected to be received in future years.

Grant income that does not meet the criteria of an exchange transaction is recognized under the criteria described above for contributions. Grantors may, at their discretion, amend the grant and contract amounts. In addition, reimbursement for expenses or return of funds, or both, may be requested as a result of noncompliance by the Organization with the terms of the grants and contracts. The Organization records such amendments, reimbursement, and return of funds as an adjustment to revenue in the year of the amendment. No such changes occurred during the years ended June 30, 2020 and 2019.

Grant funds with an explicit right to return funds if not used for their intended purpose and which are received in advance of their stipulated conditions are recorded as deferred revenue until such conditions are met. Deferred revenue at June 30, 2020 was \$26,310. There was no deferred revenue as of June 30, 2019.

Income Taxes -

The Organization is organized as a New York nonprofit corporation and has been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Internal Revenue Code (IRC) Section 501(a) as an organization described in IRC Section 501(c)(3), qualifies for the charitable contribution deduction under IRC Section 170(b)(1)(A)(vi), and has been determined not to be a private foundation under IRC Section 509(a)(2). The Organization is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the Organization is subject to income tax on net income that is derived from business activities that are unrelated to its exempt purpose. Management has determined that the Organization is not subject to unrelated business income tax and has not filed an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS. The Organization's informational returns are generally open to examination by taxing jurisdictions for three years from their filing dates or tax years ended in 2017 through 2020.

Functional Allocation of Expenses -

The costs of program, fundraising and supporting services activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited on the basis of estimates of time and effort, square footage used, or other reasonable basis for allocation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurement -

GAAP establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under GAAP are described below:

- Level 1 - Valuations based on quoted market prices in active markets for identical assets or liabilities that the Organization has the ability to access.

All of the Organization's investments are valued utilizing level 1 inputs.

- Level 2 - Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, directly or indirectly.

The Organization has no assets or liabilities that are valued utilizing level 2 inputs.

- Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The Organization has no assets or liabilities that are valued utilizing level 3 inputs.

Events Occurring After Reporting Date -

The Organization has evaluated events and transactions that occurred between June 30, 2020 and February 1, 2021, which is the date the financial statements were available to be issued, for possible disclosure and recognition in the financial statements.

Estimates -

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts and disclosures reported in the financial statements and accompanying notes. Actual results could differ from those estimates. Significant estimates included in these financial statements include useful lives of property and equipment, collectability of various receivables, and discounts applied to mortgage receivables, construction in progress and homes available for sale.

Reclassifications -

Certain reclassifications were made to the prior year summarized comparative information to conform with the current year presentation.

3. LIQUIDITY AND AVAILABILITY OF RESOURCES

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following at June 30:

	<u>2020</u>	<u>2019</u>
Financial assets:		
Cash, cash equivalents and restricted cash	\$ 515,857	\$ 170,055
Grants receivable, net	414,499	486,898
Other receivable	34,394	-
Investments	206,267	237,709
Current portion of mortgage receivables, gross	<u>333,580</u>	<u>336,425</u>
	<u>1,504,597</u>	<u>1,231,087</u>
Less amounts not available to be used within one year:		
Net assets with donor restrictions, including restricted cash	(621,062)	(464,295)
Less: net assets with purpose restrictions to be met in less than one year	<u>285,807</u>	<u>111,003</u>
	<u>(335,255)</u>	<u>(368,875)</u>
Financial assets available to meet general Expenditures over the next 12 months	<u>\$ 1,169,342</u>	<u>\$ 862,212</u>

In addition to the financial assets above, the Organization has a \$300,000 line-of-credit available for general working capital needs as well as a \$1,000,000 line-of-credit for the purpose of financing construction of residential homes. Amounts due on the line-of-credit were \$300,000 at June 30, 2019. There was no outstanding balance for the line-of-credit at June 30, 2020. (see Note 8).

4. MORTGAGES RECEIVABLE

Mortgages receivable secured by real estate, due on various dates with no interest, consisted of the following at June 30:

	<u>2020</u>	<u>2019</u>
Mortgages receivable	\$ 4,972,436	\$ 4,976,245
Discounts on non-interest-bearing notes	<u>(2,613,450)</u>	<u>(2,603,272)</u>
	2,358,986	2,372,973
Less: current portion, net of discount	<u>(154,563)</u>	<u>(168,002)</u>
	<u>\$ 2,204,423</u>	<u>\$ 2,204,971</u>

4. MORTGAGES RECEIVABLE (Continued)

The following are future maturities of mortgages receivable, net of discount, for the years ending June 30:

	<u>Mortgage</u>	<u>Discount</u>	<u>Net</u>
2021	\$ 333,580	\$ (179,017)	\$ 154,563
2022	328,768	(172,967)	155,801
2023	316,037	(166,529)	149,508
2024	309,474	(161,887)	147,587
2025	300,869	(155,725)	145,144
Thereafter	<u>3,383,708</u>	<u>(1,777,325)</u>	<u>1,606,383</u>
	<u>\$ 4,972,436</u>	<u>\$ (2,613,450)</u>	<u>\$ 2,358,986</u>

5. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

	<u>2020</u>	<u>2019</u>
Land	\$ 40,000	\$ 40,000
Buildings	774,688	774,688
Leasehold improvements	93,695	93,695
Computers and office equipment	169,639	170,933
Building equipment	70,563	70,563
Vehicles	<u>191,406</u>	<u>235,454</u>
	1,339,991	1,385,333
Less: Accumulated depreciation	<u>(770,558)</u>	<u>(737,007)</u>
	<u>\$ 569,433</u>	<u>\$ 648,326</u>

6. INVESTMENTS

Investments consisted of the following major types as of June 30:

	<u>2020</u>	<u>2019</u>
Equities	\$ 206,267	\$ 227,609
Mutual funds	<u>-</u>	<u>10,100</u>
	<u>\$ 206,267</u>	<u>\$ 237,709</u>

Investment income, net consisted of the following activity for the year end June 30:

	<u>2020</u>	<u>2019</u>
Interest and dividends	\$ 8,916	\$ 10,306
Realized gain	3,085	502
Unrealized gain (loss)	(18,559)	1,492
Investment fees	<u>(1,479)</u>	<u>(1,517)</u>
	<u>\$ (8,037)</u>	<u>\$ 10,783</u>

7. NOTES PAYABLE - AFFILIATE

The following notes are payable to Habitat for Humanity International, Inc. as of June 30:

	<u>2020</u>	<u>2019</u>
Note payable in the original principal amount of \$210,000 requiring monthly payments of \$2,235, including interest at 5.00%. Final payment is due December 2028.	\$ 184,750	\$ 201,792
Note payable in the original principal amount of \$128,300 requiring monthly payments of \$1,747, including interest at 3.80%. This note was fully repaid during fiscal 2020.	-	20,472
Note payable in the original principal amount of \$180,600 requiring monthly payments of \$1,899, including interest at 4.75%. Final payment is due June 2026.	<u>118,389</u>	<u>135,060</u>
	303,139	357,324
Less: current portion	<u>(35,386)</u>	<u>(54,184)</u>
	<u>\$ 267,753</u>	<u>\$ 303,140</u>

7. NOTES PAYABLE - AFFILIATE (Continued)

The notes payable are collateralized by security interests in specific mortgage receivables. The Organization is required to meet financial covenants of maintaining minimum net assets of \$250,000 and raising at least 50% of its annual support from local sources. The Organization was in compliance with these covenants as of and for the years ended June 30, 2020 and 2019.

Future required payments due under the terms of these notes are as follows for the years ending June 30:

	<u>Amount</u>
2021	\$ 35,386
2022	37,143
2023	38,988
2024	40,925
2025	42,958
Thereafter.....	<u>107,739</u>
	<u>\$ 303,139</u>

8. LINES-OF-CREDIT

During the year ended June 30, 2020, the Organization refinanced their existing line-of-credit agreement with a different bank. The Organization entered into two new line-of-credit agreements allowing the Organization to borrow a total of \$1,300,000. The Organization may borrow up to \$1,000,000 for the purpose of financing construction of residential homes for low-income individuals. The second agreement allows the Organization to borrow up to \$300,000 for the purpose of general working capital. Amounts borrowed under both of these agreements bear interest at the prime rate (3.25% as of June 30, 2020) and are due on demand. The line-of-credit agreements are secured by substantially all of the assets of the Organization. Amounts due on the line-of-credit were \$300,000 at June 30, 2019. There was no outstanding balance under these line-of-credit agreements at June 30, 2020.

9. LONG-TERM DEBT

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES) was passed into law. Under this program, the Small Business Administration (SBA) issued loans to eligible businesses and organizations as an incentive to keep employees on payroll. If certain requirements are met and the funds are spent on payroll and other eligible costs, a portion or all of the loan will be forgiven.

The Organization applied for and obtained one of these forgivable loans in the amount of \$292,800 during their 2020 fiscal year and it is currently recorded as long-term debt on the balance sheet. The Organization intends to apply for forgiveness and expects the total amount of the loan to be forgiven in the subsequent fiscal year. For any portion of the loan that is not forgiven, the Organization will be required to repay the loan over two years at 1% interest.

10. COMMITMENTS

In January 2017, the Organization entered into a lease agreement for a second ReStore location that requires monthly payments of \$8,813 through December 2021.

During fiscal 2018, the Organization entered into a new lease agreement for a copier. Under the terms of the lease, the Organization is required to make monthly payments of \$181 through December 2021. The Organization is also charged fees if monthly usage exceeds a predetermined amount under the agreement.

In November 2018, the Organization entered into a lease agreement for additional customer and volunteer parking space that requires monthly payments of \$600 through October 2020.

Future required payments due under the terms of the above lease obligations are as follows for the years ending June 30:

	<u>Amount</u>
2021	\$ 111,824
2022	<u>53,961</u>
	<u>\$ 165,785</u>

11. RESTRICTIONS ON NET ASSETS

Net assets with donor restrictions were available for the following purposes as of June 30:

	<u>2020</u>	<u>2019</u>
Tithe fund	\$ 230,948	\$ 248,948
Building reserves fund	104,307	104,344
Specific home construction	277,454	111,003
Homeowner assistance	<u>8,353</u>	<u>-</u>
	<u>\$ 621,062</u>	<u>\$ 464,295</u>

Net assets with donor restrictions that were released from restrictions were as follows during the years ended June 30:

	<u>2020</u>	<u>2019</u>
Tithe fund	\$ 10,000	\$ 11,453
Specific home construction	338,542	182,800
Homeowner assistance	1,647	70,000
Tools and equipment	<u>93,872</u>	<u>-</u>
	<u>\$ 444,061</u>	<u>\$ 264,253</u>

11. RESTRICTIONS ON NET ASSETS (Continued)

The tithe fund amounts are restricted by the donor for use in supplementing the Organization's tithing to Habitat for Humanity International. Annually, amounts are released to unrestricted funds for this purpose based on the discretion of the Organization's Board of Directors.

The building reserves fund is restricted by the donor for use as an internal line-of-credit that is used by the Organization to fund the construction of homes while awaiting infrastructure, federal home loan payments, and other post-closing government grant funding. The fund is replenished as soon as these payments are received, with the balance in the fund equaling a minimum of \$100,000 plus interest earned thereon. At June 30, 2020 and 2019, the donor restricted amount totaled \$104,307 and \$104,344, respectively, which included principal of \$100,000 and cumulative earnings of \$4,307 and \$4,344, respectively, and are represented in the restricted cash balance on the accompanying financial statements. As of June 30, 2019, the Organization had outstanding loans of \$100,000 from this fund. There were no loans from the building reserve fund at June 30, 2020.

12. DONATED SERVICES

The Organization values all donations of materials and professional services at fair market value when received. Revenue and expenses related to donated goods and services are recognized at the time such goods are received or services are rendered. Total contributed goods and services were approximately \$27,000 and \$23,000 for the years ended June 30, 2020 and 2019, respectively.

The Organization also receives a significant amount of donated services from unpaid volunteers who assist in home rehabilitation/construction, fund-raising and special projects. No amounts have been recognized in the statement of activities because the criteria for recognition under generally accepted accounting principles have not been met.

13. EMPLOYEE BENEFIT PLAN

The Organization sponsors a defined contribution plan. All employees are eligible for participation in the plan upon hire, and may voluntarily elect to contribute a percentage of their compensation to the plan, subject to the terms of the plan and certain established federal limitations. The Organization makes no matching or discretionary contributions to the plan at this time.

14. CONTINGENCIES, RISKS AND UNCERTAINTIES

As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen which may negatively impact future operations. The entire financial impact that could result from such potential impact is unknown at this time. During the year ended June 30, 2020, the Organization was able to secure an amount under the Payroll Protection Program forgivable loan program in the amount of \$292,800 to help mitigate the financial impact of the COVID-19 pandemic. The loan is administered by the SBA under the terms of the CARES act (See Note 9).

14. CONTINGENCIES, RISKS AND UNCERTAINTIES (Continued)

Certain grantors, particularly government funders, have increased their scrutiny of payments made to their designated grantees. Such revenues may be subject to audit by the grantor resulting in potential recoupment of previously received funding. Also, in light of the ongoing COVID-19 pandemic, government payments may be delayed for significant periods of time, or possibly subject to reductions in future funding under existing programs.