

**HABITAT FOR HUMANITY OF SOUTHWEST
ALABAMA, INC. AND SUBSIDIARIES**

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

**HABITAT FOR HUMANITY OF SOUTHWEST
ALABAMA, INC. AND SUBSIDIARIES
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JUNE 30, 2020 AND 2019**

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Habitat for Humanity of Southwest Alabama, Inc. and Subsidiaries

We have audited the accompanying consolidated financial statements of Habitat for Humanity of Southwest Alabama, Inc. and Subsidiaries (a nonprofit organization), which comprise the consolidated statements of financial position as of June 30, 2020 and 2019, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated 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 consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Habitat for Humanity of Southwest Alabama, Inc. and Subsidiaries as of June 30, 2020 and 2019, 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.

Warren Averett, LLC

Mobile, Alabama
December 9, 2020

**HABITAT FOR HUMANITY OF SOUTHWEST
ALABAMA, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2020 AND 2019**

ASSETS		
	2020	2019
Cash and cash equivalents	\$ 817,645	\$ 313,608
Restricted cash and cash equivalents	367,960	437,737
Prepaid expenses and other assets	102,039	134,150
Mortgage notes receivable, net of unamortized discount	5,160,101	5,346,676
Accounts receivable	73,569	74,755
Completed homes	311,468	422,011
Homes construction in progress	115,849	160,899
ReStore inventory	49,009	71,810
Land held for development	1,261,562	559,602
Rehabilitation projects held for development	379,960	113,945
Temporarily restricted real estate	142,400	213,000
Property and equipment, net	3,348,129	3,656,391
Investment in joint venture	-	5,620,936
TOTAL ASSETS	\$ 12,129,691	\$ 17,125,520
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 48,098	\$ 52,669
Accrued expenses	62,973	73,148
Escrow of insurance and taxes	11,067	10,582
Funds deposited on homes	24,318	24,383
Capital lease payable, net	1,183,966	1,258,644
Deferred revenue	44,918	-
Other liabilities	5,823	1,918
Notes payable, net	3,246,386	10,639,636
TOTAL LIABILITIES	4,627,549	12,060,980
NET ASSETS		
Without donor restrictions:		
Undesignated	5,004,816	2,245,148
Investment in property and equipment, net	2,164,163	2,394,529
Total net assets without donor restrictions	7,168,979	4,639,677
With donor restrictions:		
Restricted by purpose	333,163	424,863
TOTAL NET ASSETS	7,502,142	5,064,540
TOTAL LIABILITIES AND NET ASSETS	\$ 12,129,691	\$ 17,125,520

See notes to the consolidated financial statements.

**HABITAT FOR HUMANITY OF SOUTHWEST
ALABAMA, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2020**

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE AND OTHER SUPPORT			
Contributions and grants	\$ 212,007	\$ 126,994	\$ 339,001
Contributions, in-kind	292,153	-	292,153
Home sales, net	289,255	-	289,255
Mortgage discount amortization	453,271	-	453,271
Gain on foreclosure of mortgages	185,740	-	185,740
ReStore sales	709,412	-	709,412
Equity in earnings of joint venture	27,836	-	27,836
Gain on dissolution of joint venture	1,860,652	-	1,860,652
Rental income	263,426	-	263,426
Grant revenue	-	96,082	96,082
Other revenue	539,245	-	539,245
	<u>4,832,997</u>	<u>223,076</u>	<u>5,056,073</u>
Total support and revenue			
Net assets released from restrictions:			
Satisfaction of program restrictions	314,776	(314,776)	-
	<u>5,147,773</u>	<u>(91,700)</u>	<u>5,056,073</u>
TOTAL REVENUE AND OTHER SUPPORT			
EXPENSES			
Program services:			
Construction	973,134	-	973,134
ReStore	564,038	-	564,038
Partnership housing	522,994	-	522,994
	<u>2,060,166</u>	<u>-</u>	<u>2,060,166</u>
Total program services			
Supporting services:			
Management and general	487,940	-	487,940
Fund-raising	70,365	-	70,365
	<u>558,305</u>	<u>-</u>	<u>558,305</u>
Total supporting services			
TOTAL EXPENSES	2,618,471	-	2,618,471
CHANGE IN NET ASSETS	2,529,302	(91,700)	2,437,602
NET ASSETS AT BEGINNING OF YEAR	<u>4,639,677</u>	<u>424,863</u>	<u>5,064,540</u>
NET ASSETS AT END OF YEAR	<u>\$ 7,168,979</u>	<u>\$ 333,163</u>	<u>\$ 7,502,142</u>

See notes to the consolidated financial statements.

**HABITAT FOR HUMANITY OF SOUTHWEST
ALABAMA, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019**

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE AND OTHER SUPPORT			
Contributions and grants	\$ 271,143	\$ 285,500	\$ 556,643
Contributions, in-kind	64,416	-	64,416
Home sales, net	442,742	-	442,742
Mortgage discount amortization	452,219	-	452,219
Gain on foreclosure of mortgages	35,457	-	35,457
ReStore sales	636,115	-	636,115
Equity in earnings of joint venture	55,672	-	55,672
Rental income	262,668	-	262,668
Other revenue	194,486	-	194,486
Total support and revenue	2,414,918	285,500	2,700,418
Net assets released from restrictions:			
Satisfaction of program restrictions	179,583	(179,583)	-
TOTAL REVENUE AND OTHER SUPPORT	2,594,501	105,917	2,700,418
EXPENSES AND LOSSES			
Program services:			
Construction	1,285,392	-	1,285,392
ReStore	574,790	-	574,790
Partnership housing	438,858	-	438,858
Total program services	2,299,040	-	2,299,040
Supporting services:			
Management and general	499,100	-	499,100
Fund-raising	96,908	-	96,908
Total supporting services	596,008	-	596,008
TOTAL EXPENSES	2,895,048	-	2,895,048
CHANGE IN NET ASSETS	(300,547)	105,917	(194,630)
NET ASSETS AT BEGINNING OF YEAR	4,940,224	318,946	5,259,170
NET ASSETS AT END OF YEAR	\$ 4,639,677	\$ 424,863	\$ 5,064,540

See notes to the consolidated financial statements.

**HABITAT FOR HUMANITY OF SOUTHWEST
ALABAMA, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2020**

	Program Services			Supporting Services			Totals
	Construction	ReStore	Partnership Housing	Total Program Services	Management and General	Fund-Raising	
Advertising	\$ 85	\$ 8,511	\$ -	\$ 8,596	\$ -	\$ 5,038	\$ 13,634
Bank and credit card fees	104	3,715	589	4,408	5,087	-	9,495
Costs of construction and sales	605,724	291,022	155,995	1,052,741	-	1,319	1,054,060
Depreciation and amortization	21,502	24,177	110,044	155,723	60,764	-	216,487
Dues and memberships	4,000	2,000	-	6,000	7,600	2,782	16,382
Food, lodging, and travel	191	60	-	251	1,166	1,564	2,981
Habitat International tithe	-	-	-	-	-	3,578	3,578
Insurance	20,829	11,347	60,676	92,852	5,629	26	98,507
Interest	71,189	21,777	1,152	94,118	119,210	-	213,328
Loan processing fees	24,266	-	-	24,266	-	-	24,266
Loss on disposal of assets	3,000	-	10,199	13,199	-	-	13,199
Occupancy	12,994	17,573	20,320	50,887	6,048	-	56,935
Office expenses	505	4,801	10,852	16,158	9,020	2,918	28,096
Other expenses	3,075	1,945	5,837	10,857	6,371	1,616	18,844
Payroll	147,299	154,182	68,603	370,084	203,335	40,412	613,831
Payroll taxes	10,641	12,867	4,750	28,258	13,601	3,157	45,016
Professional services	26,260	1,950	5,432	33,642	43,308	296	77,246
Repairs and maintenance	9,109	2,191	64,620	75,920	778	1,106	77,804
Special events	-	117	-	117	-	4,026	4,143
Telecommunications	1,101	1,653	2,144	4,898	5,641	1,455	11,994
Training	297	-	9	306	-	309	615
Vehicle expenses	10,963	4,150	1,772	16,885	382	763	18,030
Totals	\$ 973,134	\$ 564,038	\$ 522,994	\$ 2,060,166	\$ 487,940	\$ 70,365	\$ 2,618,471

See notes to the consolidated financial statements.

**HABITAT FOR HUMANITY OF SOUTHWEST
ALABAMA, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2019**

	Program Services			Supporting Services		Totals	
	Construction	ReStore	Partnership Housing	Total Program Services	Management and General		Fund-Raising
Advertising	\$ -	\$ 6,616	\$ -	\$ 6,616	\$ -	\$ 147	\$ 6,763
Bank and credit card fees	966	7,785	4	8,755	1,323	56	10,134
Costs of construction and sales	988,207	282,828	122,337	1,393,372	-	2,922	1,396,294
Depreciation and amortization	13,819	25,010	112,959	151,788	62,460	-	214,248
Donations	-	-	-	-	4,864	-	4,864
Dues and memberships	3,500	2,288	-	5,788	7,645	3,453	16,886
Food, lodging, and travel	1,252	163	-	1,415	2,425	473	4,313
Habitat International tithe	-	-	-	-	-	3,511	3,511
Insurance	22,777	12,301	59,474	94,552	4,942	-	99,494
Interest	9,696	24,901	-	34,597	123,632	-	158,229
Loan processing fees	32,219	-	-	32,219	-	-	32,219
Occupancy	11,070	33,922	7,603	52,595	5,758	-	58,353
Office expenses	1,343	6,844	13,129	21,316	12,759	2,330	36,405
Other expenses	1,125	625	1,509	3,259	2,594	2,539	8,392
Payroll	151,530	144,786	62,563	358,879	195,806	73,143	627,828
Payroll taxes	11,951	12,923	4,171	29,045	12,666	6,305	48,016
Professional services	9,036	-	3,242	12,278	53,000	-	65,278
Repairs and maintenance	14,195	8,610	46,092	68,897	140	-	69,037
Telecommunications	526	1,472	2,000	3,998	8,246	-	12,244
Training	420	65	88	573	425	560	1,558
Vehicle expenses	11,760	3,651	3,687	19,098	415	1,469	20,982
Totals	\$ 1,285,392	\$ 574,790	\$ 438,858	\$ 2,299,040	\$ 499,100	\$ 96,908	\$ 2,895,048

See notes to the consolidated financial statements.

**HABITAT FOR HUMANITY OF SOUTHWEST
ALABAMA, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019**

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 2,437,602	\$ (194,630)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Origination of noninterest bearing mortgages, net of related discounts	(38,189)	(112,452)
Depreciation and amortization	216,487	214,248
Amortization of loan costs	5,024	15,699
Unamortized New Markets Tax credit fees	(396,039)	-
Bad debt expense	19,893	13,622
Gain on foreclosed mortgages	(185,740)	(36,204)
Loss on disposal of assets	13,199	-
Forgiveness of notes payable	(83,092)	(96,949)
Gain on dissolution of joint venture	(1,860,652)	-
Equity in earnings of joint venture	(27,836)	(55,672)
Distributions from joint venture	80,853	55,672
Donated assets	(281,985)	(56,234)
Mortgage discount amortization	(453,271)	(452,219)
Changes in assets and liabilities:		
Prepaid expenses, other assets, and other receivables	(24,601)	8,552
Completed homes	146,538	492,054
Homes construction in progress	45,050	(63,003)
ReStore inventory	22,801	(474)
Land and rehabilitation projects held for development	104,587	(48,125)
Temporarily restricted real estate	70,600	46,500
Accounts payable, accrued expenses, and other liabilities	(10,841)	(177)
Escrow of insurance and taxes and funds deposited on homes	13,098	(6,725)
Deferred revenue	44,918	(299)
Net cash used in operating activities	<u>(141,596)</u>	<u>(276,816)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Mortgage payments received	606,097	590,020
Purchase of property and equipment	(3,480)	(25,778)
Proceeds from sale of property and equipment	30,601	-
Net cash provided by investing activities	<u>633,218</u>	<u>564,242</u>

See notes to the consolidated financial statements.

**HABITAT FOR HUMANITY OF SOUTHWEST
ALABAMA, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019**

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on notes payable	\$ (210,560)	\$ (330,453)
Borrowings on notes payable	231,590	116,874
Principal payments on capital lease payable	<u>(78,392)</u>	<u>(75,114)</u>
Net cash used in financing activities	<u>(57,362)</u>	<u>(288,693)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	434,260	(1,267)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>751,345</u>	<u>752,612</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 1,185,605</u>	<u>\$ 751,345</u>
CASH AND CASH EQUIVALENTS	\$ 817,645	\$ 313,608
RESTRICTED CASH AND CASH EQUIVALENTS	<u>367,960</u>	<u>437,737</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 1,185,605</u>	<u>\$ 751,345</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	<u>\$ 138,123</u>	<u>\$ 142,764</u>

During the year ended June 30, 2020, Habitat for Humanity of Southwest Alabama, Inc. and Subsidiaries (Habitat) transferred \$124,845 from property and equipment, net, to land held for development.

During the year ended June 30, 2019, Habitat financed the purchase of a vehicle in the amount of \$22,369.

During the year ended June 30, 2019, Habitat had noncash increases of \$367,642 to completed homes and \$49,533 to property and equipment, net, and a noncash decrease of \$338,175 to homes construction in progress, a noncash increase of \$18,800 and a noncash decrease of \$30,251 to land held for development, and \$70,600 and \$46,500 in noncash decreases to rehabilitation projects held for development.

See notes to the consolidated financial statements.

**HABITAT FOR HUMANITY OF SOUTHWEST
ALABAMA, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization and Presentation

Habitat for Humanity of Southwest Alabama, Inc. and Subsidiaries (Habitat) was incorporated in the state of Alabama as a nonprofit organization on September 22, 1988, for constructing decent, affordable housing for those in need. Habitat is an affiliate of Habitat International, Inc. (International) and is responsible for its own operations, which are restricted to Mobile, Washington, and Clarke Counties of the state of Alabama. International assists its affiliates with information resources, training, publications, prayer support, and in various other ways.

Habitat owns 100% of HFHSWA Funding Company, LLC, which was formed in Alabama on May 22, 2014, to sell mortgages to PNC Community Development Company, LLC.

Habitat operates a ReStore which sells building materials and home improvement products to the general public.

On January 19, 2016, Partnership Housing of Southwest Alabama, Inc. (Partnership Housing) was formed as a wholly owned subsidiary of Habitat. Partnership Housing was formed as a Community Housing Development Organization (CHDO) to engage in activities to provide quality, safe, affordable housing to low- and moderate-income families within Mobile, Baldwin, Clarke, and Washington Counties of the state of Alabama, who lack the financial and other resources necessary to obtain such housing without assistance provided by organizations such as Partnership Housing.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Habitat for Humanity of Southwest Alabama, Inc. and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated.

Recently Adopted Accounting Pronouncements

In June 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which clarified and improved the scope and accounting guidance for contributions received and contributions made. The guidance was adopted by Habitat during the year ended June 30, 2020. The implementation of the ASU had no effect on Habitat's financial statements.

Effective January 1, 2019, Habitat adopted FASB ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which provides accounting guidance on the recognition of revenue from contracts and requires gross presentation of certain costs that were previously offset against revenue. Habitat has applied ASU 2014-09 retrospectively, which requires that the cumulative effect of initial application be recognized as an adjustment to beginning net assets. There was no beginning balance effect on net assets for the year ended June 30, 2019, as a result of implementation of this ASU. The initial application of the ASU was applied to all contracts as of June 1, 2018.

**HABITAT FOR HUMANITY OF SOUTHWEST
ALABAMA, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Basis of Presentation

These consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Financial statements presentation follows the recommendations of FASB in its Accounting Standards Codification (ASC) 958-205, *Not-for-Profit Entities, Presentation of Financial Statements* (Topic 958). Under this guidance, Habitat is required to report information regarding its financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions.

Revenue Recognition

Habitat recognizes certain contributions, grants, and other donor support in accordance with ASC Topic 958. Under this guidance, contributions and grants received are recorded as support without donor restrictions or support with donor restrictions, depending on the existence and/or nature of any donor restrictions. When a restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from restriction. Conditional grants received are reported as deferred revenue until all stipulated conditions are fulfilled. Property and equipment donated without stipulations are reported as contributions without donor restrictions.

Habitat recognizes revenue from home sales, ReStore sales, and other exchange transactions in accordance with the ASC Topic 606, *Revenue from Contracts with Customers*. In accordance with this guidance, revenue and related costs of revenue are recognized when there is persuasive evidence that an arrangement exists, transfer of ownership has occurred, the price to the buyer is fixed or determinable, and the collectability of the related receivable is reasonably assured. Regarding revenues derived from the sale of completed homes, customers can use Habitat to finance the purchase of the home or obtain third-party financing. When third-party financing is obtained, Habitat is paid in full and revenue is recognized at the point in time when the closings occur, and ownership is fully transferred to the customer. Home sales financed by Habitat are recorded at the gross mortgage amount, plus the down payment received. Revenue is recognized at the point in time when closing occurs. Noninterest-bearing mortgages have been discounted based on the prevailing market rates for low-income housing at the inception of the mortgages. Home sales are presented net of this discount, which totaled \$59,111 and \$173,148 for the years ended June 30, 2020 and 2019, respectively. Revenues and cash flows are affected by various economic factors. Habitat-financed properties require monthly mortgage payments, with payment due 10 days after month-end. In the event of default, Habitat retains the right of foreclosure of the mortgaged property.

Habitat derives ReStore revenues from the sale of various home improvement supplies, including but not limited to flooring, paint products, and furniture and fixtures directly to its customers. Habitat is paid in full upon transfer of ownership, and revenue is recognized at the time of the sale.

Revenue generated from home rentals is recognized in accordance with FASB ASC Topic 840, *Leases*. The rental agreements are annual, and as such, revenue is recognized over the term of the lease. Payments are due on the first day of each rental month and considered delinquent if not received within 10 days.

**HABITAT FOR HUMANITY OF SOUTHWEST
ALABAMA, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Donated Assets, Supplies, and Services

Donated assets, supplies, and services are reflected as contributions, in-kind in the accompanying consolidated statements of activities at their estimated fair values at the date of donation. Donated assets, supplies, and services consist of the following for the years ended June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Land held for development	\$ 246,600	\$ 36,780
Property and equipment	24,000	-
Construction materials	11,385	19,454
Supplies and services	<u>10,168</u>	<u>8,182</u>
Total	<u>\$ 292,153</u>	<u>\$ 64,416</u>

Expense Allocation

The costs of providing various programs and other activities have been summarized in the consolidated statements of activities and in the consolidated statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Amortization

Closing costs incurred regarding notes payable are being amortized using the straight-line method over the life of the related loan. Amortization is shown in interest expense in the consolidated statements of functional expenses.

Cash and Cash Equivalents

Habitat considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Restricted cash and cash equivalents consist of funds received from donors for restricted purposes, funds to be used in accordance with the Paycheck Protection Program (Note 4), as well as escrows and deposits held by Habitat.

Mortgage Notes Receivable and Accounts Receivable

Habitat reports receivables at net realizable value. Management provides an allowance for doubtful accounts equal to the estimated uncollectible amounts. The estimate is based on historical collection experience and a review of the current status of accounts receivable. It is reasonably possible that management's estimate of the allowance for doubtful accounts will change. Due to the nature and collection of the receivable, management has determined that all receivables are collectible and, accordingly, no allowance for doubtful accounts has been recorded for the years ended June 30, 2020 and 2019.

**HABITAT FOR HUMANITY OF SOUTHWEST
ALABAMA, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Property and Equipment

Major additions for property and equipment of \$2,000 or more are capitalized at cost; maintenance and repairs are charged to expense as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the depreciable assets. The cost and accumulated depreciation of disposed property and equipment are removed from the related accounts, and any gain or loss is reflected in the consolidated statements of activities. Purchased property and equipment are valued at cost less accumulated depreciation. Estimated useful lives are principally as follows:

Buildings and building improvements	15-39 years
Furniture and fixtures	5 years
Equipment	5-7 years

Donated property and equipment is recorded at the estimated fair value at the time the equipment is available for use by Habitat. Depreciation expense related to assets originally acquired under capital leases is computed on a straight-line basis over the shorter of the useful life of the equipment or the lease term, as appropriate.

Land Held for Development

Land and development costs are carried at cost. If donated, land and development costs are recorded at the estimated fair value at the date of the donation, plus the costs of recording deeds and property taxes paid. The cost of land is transferred to homes construction in progress at the beginning of construction.

Rehabilitation Projects Held for Development

Rehabilitation projects are carried at cost. If donated, rehabilitation property costs are recorded at the estimated fair value at the date of the donation, plus the costs of recording deeds and property taxes paid. Projects are transferred to homes construction in progress at the beginning of the rehabilitation.

Also, included in rehabilitation projects held for development are properties foreclosed by Habitat during the years ended June 30, 2020 and 2019. These projects are recorded at fair value at the time of foreclosure.

Construction Costs

Construction costs include the cost of acquired materials and services or, if donated, the estimated fair value of the material and services at the date of the donation. Donated labor and services are only recorded for specialized skills which would typically be purchased if not donated. Donated labor and services not meeting these criteria are not recorded.

Impairment of Long-lived Assets

The recoverability of assets is reviewed when events or changes in circumstances occur that indicate that the carrying value of the asset may not be recoverable. The assessment of possible impairment is based on the ability to recover the carrying value of the asset from the future cash flows of the related asset. If the cash flows are less than the carrying value of such asset, an impairment loss is recognized for the difference between the estimated fair value and the carrying value. There were no such losses for the years ended June 30, 2020 and 2019.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Compensated Absences

Employees of Habitat are entitled to paid vacation, depending on the length of time employed with Habitat. Each January 1st, employees are provided an annual amount of vacation days depending on the number of years of employment with Habitat. Newly hired employees are provided a pro-rata amount of vacation for the year, which is dependent on their starting date of employment. Vacation time must be taken by the end of each calendar year. Habitat has a use-it-or-lose-it policy regarding carrying over of unused vacation. Due to vacation leave balances existing as of June 30, 2020 and 2019, Habitat has recorded a liability for compensated absences for vacation time available until December 31, 2020 and 2019. The amount of compensated absences liability at June 30, 2020 and 2019, was \$49,378 and \$25,138, respectively, and is included in accrued expenses in the consolidated statements of financial position.

Advertising

Advertising costs are expensed as incurred. Advertising costs were \$13,634 and \$6,763 for the years ended June 30, 2020 and 2019, respectively.

Income Tax Status

Habitat is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code under a group exemption letter granted to International. Accordingly, no provision for income taxes has been made in the accompanying consolidated financial statements. As of June 30, 2020, Habitat had no uncertain tax positions or interest or penalties that qualify for either recognition or disclosure in the consolidated financial statements.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events

Management has evaluated subsequent events through December 9, 2020, which is the date the consolidated financial statements were available to be issued.

2. MORTGAGE NOTES RECEIVABLE, NET OF UNAMORTIZED DISCOUNT

Discounted mortgage notes receivable consist of noninterest-bearing notes secured by real estate and payable in monthly installments over periods of 30 to 40 years. These mortgages are discounted based on prevailing market rates for low-income housing at the inception of each mortgage and range from 7.38% to 8.34% per year. During the years ended June 30, 2020 and 2019, Habitat imputed a discount rate of 7.38% and 7.66%, respectively, for loans originated during that year. Interest rates are provided annually by International. Discounts are amortized based on the payments received during the year and recognized as mortgage discount amortization on the consolidated statements of activities over the term of the mortgage.

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2. MORTGAGE NOTES RECEIVABLE, NET OF UNAMORTIZED DISCOUNT – CONTINUED

Mortgage notes receivable consist of the following:

	<u>2020</u>	<u>2019</u>
Mortgage notes receivable	\$ 10,623,974	\$ 11,254,363
Less: discount on mortgage notes receivable	<u>(5,463,873)</u>	<u>(5,907,687)</u>
Mortgage notes receivable, net of unamortized discount	<u>\$ 5,160,101</u>	<u>\$ 5,346,676</u>

Second mortgages, referred to as “silent,” are held on certain homes that are sold. The terms of these silent mortgages range from 5 to 10 years and must be satisfied if the home is sold within the term of the mortgages. The silent mortgages are not recorded on the consolidated statements of financial position because payment on these mortgages is waived on a pro-rata basis over the term of the mortgage.

3. PROPERTY AND EQUIPMENT, NET

Property and equipment, net, consists of the following:

	<u>2020</u>	<u>2019</u>
Land	\$ 891,890	\$ 934,290
Buildings and building improvements	3,041,399	3,157,433
Furniture and fixtures	26,201	26,201
Equipment	<u>291,164</u>	<u>287,684</u>
Total	4,250,654	4,405,608
Less: accumulated depreciation	<u>(902,525)</u>	<u>(749,217)</u>
Property and equipment, net	<u>\$ 3,348,129</u>	<u>\$ 3,656,391</u>

Depreciation expense totaled \$167,097 and \$164,596 for the years ended June 30, 2020 and 2019, respectively.

4. PAYCHECK PROTECTION PROGRAM

In April 2020, Habitat obtained funding under the Paycheck Protection Program of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) for \$141,000. The funding is structured as a loan bearing interest at 1.00% with monthly principal payments of \$7,936 and monthly accrued interest payments required after a ten-month deferral period. The loan matures April 2022. The loan is eligible for forgiveness in full if the funds are spent on qualifying expenses within a period up to 24 weeks, beginning on the original loan date. Habitat has yet to apply for forgiveness; however it is expected to be fully forgiven, and Habitat has expended \$96,082 on qualifying expenses as of June 30, 2020. In accordance with Topic 958, the funds have been recorded as a refundable advance and are recorded in deferred revenue on the consolidated statements of financial position as of June 30, 2020 and 2019. Revenue recognized for the years ended June 30, 2020 and 2019 were \$96,082 and \$0, respectively.

**HABITAT FOR HUMANITY OF SOUTHWEST
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5. NOTES PAYABLE, NET

Notes payable, net, consist of the following:

	<u>2020</u>	<u>2019</u>
Note payable to Alabama Housing Finance Authority, due in monthly installments of \$9,196, noninterest bearing, maturing at various dates ending March 2046, secured by mortgage notes receivable	\$ 1,932,757	\$ 2,043,943
Note payable to PNC Community Development Company, LLC, due in monthly installments of \$5,050 bearing interest at 2.75%, maturing at various dates ending September 2044, secured by mortgage notes receivable	805,740	847,339
Note payable to the City of Mobile, due in 240 monthly installments of \$1,288, noninterest bearing, maturing May 2032, secured by mortgage notes receivable and real estate	187,421	202,880
Note payable to the Mobile County Commission, due in monthly installments of \$725, noninterest bearing, maturing at various dates ending March 2044, secured by mortgage notes receivable	163,137	171,826
Note payable to the Small Business Administration, due in monthly installments of \$641, bearing interest at 2.75% beginning May 2021, maturing May 2050	160,000	-
\$50,000 line of credit, payable to The First US Bank, bearing interest at prime plus 0.50% (5.25% and 3.75%, respectively), maturing February 2021, secured by assignment of certain leases	11,772	14,648
Note payable to The First US Bank, due in monthly installments of \$428, bearing interest at 5.47%, maturing February 2024, secured by a 2018 Ford F-150 truck	16,992	21,054
Note payable to USBCDE Sub CDE 88, LLC, due in semi-annual interest only installments at a rate of 0.872%, principal forgiven through maturity of joint venture agreement (see Note 11)	-	7,428,571

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5. NOTES PAYABLE, NET – CONTINUED

	2020	2019
Note payable to Mobile County Commission, payable on demand, noninterest bearing, secured by future advance mortgages on lots developed	\$ -	\$ 40,310
Note payable to The First, A National Banking Association, due in monthly installments of \$337, bearing interest at 4.25%, matured May 2020	-	3,218
	3,277,819	10,773,789
Less: unamortized loan costs	(31,433)	(134,153)
Total notes payable, net	\$ 3,246,386	\$ 10,639,636

Maturities of notes payable are as follows as of June 30, 2020:

Year Ended June 30,	
2021	\$ 190,219
2022	182,860
2023	180,565
2024	179,641
2025	177,124
Thereafter	2,367,410
	\$ 3,277,819

In February 2020, Habitat established a line of credit with The First US Bank. The aggregate total of available credit is \$75,000. The line has a variable interest rate of Wall Street prime rate plus 0.50%. As of June 30 2020, there were no outstanding borrowings on the line of credit. The line of credit matures February 2021.

Amortization expense related to loan costs was \$1,310 and \$11,985 for the years ended June 30, 2020 and 2019, respectively, and is included in interest expense on the statements of functional expenses.

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6. CAPITAL LEASE

Habitat leases land and a building under an agreement classified as a capital lease. The land and building were included in property and equipment at the fair value of the land and building at the date of the lease's inception. The capital lease, secured by all machinery, equipment, and other personal property, matures in December 2021, and bears interest at a fixed rate of 4.28%. The related obligation has been recorded at the present value of future minimum lease payments. The capital lease payable is shown net of unamortized loan costs totaling \$5,262 and \$8,976 as of June 30, 2020 and 2019, respectively. Depreciation expense related to the leased building and building improvements totaled \$42,250 for each of the years ended June 30, 2020 and 2019.

Following is a summary of property held under capital lease:

	<u>2020</u>	<u>2019</u>
Land	\$ 592,000	\$ 592,000
Building and building improvements	<u>1,561,743</u>	<u>1,561,743</u>
	2,153,743	2,153,743
Less: accumulated depreciation	<u>(362,642)</u>	<u>(320,392)</u>
Total	<u>\$ 1,791,101</u>	<u>\$ 1,833,351</u>

Aggregate maturities under capital lease are as follows:

<u>Year Ended June 30,</u>	
2021	\$ 131,121
2022	<u>1,130,737</u>
Total minimum lease payments	1,261,858
Less: unamortized loan costs	(5,262)
Less: amount representing interest	<u>(72,630)</u>
Present value of net minimum lease	<u>\$ 1,183,966</u>

Amortization expense related to loan costs totaled \$3,714 for each of the years ended June 30, 2020 and 2019.

As of June 30, 2020, Habitat is in compliance with all covenants contained in the capital lease agreement.

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7. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions were available for the following purposes as of June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Construction and home improvement	\$ 190,763	\$ 211,863
Real estate restricted for sale to low-income families	<u>142,400</u>	<u>213,000</u>
Total	<u>\$ 333,163</u>	<u>\$ 424,863</u>

8. NET ASSETS RELEASED FROM DONOR RESTRICTIONS

Net assets were released from donor restrictions by incurring expenses or by acquiring or selling assets satisfying the restricted purpose or by occurrence of events specified by donors. Purpose restrictions accomplished during the year ended June 30, 2020, consist of money spent for construction and improvement of homes totaling \$148,094, sale of a restricted property totaling \$70,600, and the use of PPP funds for allowable expenses totaling \$96,082. Purpose restrictions accomplished during the year ended June 30, 2019, consist of money spent for construction and improvement of homes totaling \$133,083, and sale of a restricted property totaling \$46,500.

9. CONCENTRATIONS OF CREDIT RISK

All of Habitat's mortgage loans are to low-income individuals and are secured by real estate in Southwest Alabama.

Habitat maintains its cash in bank deposit accounts in financial institutions, which at times may exceed federally insured limits. The Federal Deposit Insurance Corporation (FDIC) provides insurance for all accounts up to \$250,000 at each institution. Habitat has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash held by financial institutions.

10. RELATED PARTY TRANSACTIONS

Transactions with related parties were as follows as of and for the years ended June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Revenue:		
Equity in earnings of joint venture	\$ 27,836	\$ 55,672
Expenses:		
Habitat International tithe	3,578	3,511
Habitat SOSI fee	15,000	15,000
Interest	32,201	64,762

**HABITAT FOR HUMANITY OF SOUTHWEST
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10. RELATED PARTY TRANSACTIONS – CONTINUED

For the years ended June 30, 2020 and 2019, Habitat paid \$1,452 and \$2,484, respectively, for computer services to a company owned by a board member. For the years ended June 30, 2020 and 2019, Habitat paid an insurance premium of \$22,370 and \$20,721 respectively, to a company owned by a former board member. During fiscal 2020, Habitat sold contributed property to a board member for \$21,000.

11. INVESTMENT IN JOINT VENTURE

During the year ended June 30, 2014, Habitat invested in a joint venture to take advantage of New Market Tax Credit (NMTCS) financing that is available through a program administered by the U.S. Department of Treasury. The NMTCS program allows an entity to receive a loan or investment capital from outside investors, who will receive new market tax credits to be applied against their federal tax liability. In order to facilitate the program (NMTCS1), Habitat Southwest Alabama Leverage, LLC (Leverage, LLC) was established, and Habitat became a limited partner with a 99% capital share. As a part of the NMTCS1 agreement, Habitat recorded an initial investment of \$5,620,936 and secured a loan in the amount of \$7,428,571 payable to a community development entity (an affiliate of the joint venture). The loan bears interest at a fixed rate of 0.872% with a term of 14.5 years. The loan proceeds were designated for constructing and selling qualified housing properties to low-income residents. As the deal was structured, the NMTCS1 loan was forgiven and the investment in the joint venture was dissolved effective December 31, 2019.

During the year ended June 30, 2020, the following transactions occurred:

Join Venture Investment	Balance at July 01, 2019	Current Fiscal Year Equity Earnings	Current Fiscal Year Equity Distributions	Dissolution	Balance at June 30, 2020
NMTCS1	\$ 5,620,936	\$ 27,836	\$ 80,853	\$ 5,567,919	\$ -

During the year ended June 30, 2019, the following transactions occurred:

Join Venture Investment	Balance at July 01, 2018	Prior Fiscal Year Equity Earnings	Prior Fiscal Year Equity Distributions	Dissolution	Balance at June 30, 2019
NMTCS1	\$ 5,620,936	\$ 55,672	\$ 55,672	\$ -	\$ 5,620,936

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11. INVESTMENT IN JOINT VENTURE – CONTINUED

The NMTC investment is recorded using the equity method as fair market value is not readily determinable. Under the equity method, the investment balance is increased by Habitat's share of the joint venture earnings and reduced by distributions received. As of December 31, 2019, the joint venture was dissolved, the initial investment was relieved, outstanding debt was forgiven and Habitat recorded a gain on the dissolution of joint venture of \$1,860,652. NMTC related deferred revenues and unamortized fees were written off during fiscal 2020, resulting in the recognition of \$396,039 of revenue which is included in other revenue on the consolidated statements of activities.

12. LIQUIDITY AND FUNDS AVAILABLE

The following table reflects Habitat's financial assets as of June 30, 2020 and 2019, reduced by amounts not available for expenditure within one year. Financial assets are considered unavailable when illiquid or not convertible to cash within one year, perpetual endowments and accumulated earnings net of appropriations within one year or because the governing board has set aside the funds for specific contingency reserves and projects or a long-term investment as board designated endowments.

	<u>2020</u>	<u>2019</u>
Financial Assets:		
Cash and cash equivalents	\$ 817,645	\$ 313,608
Restricted cash and cash equivalents	367,960	437,737
Current portion of mortgages receivable, gross	528,054	537,618
Accounts receivable	73,569	74,755
Financial assets, at year-end	<u>1,787,228</u>	<u>1,363,718</u>
Less those unavailable for general expenditure within one year, due to:		
Cash restricted for purposes other than programmatic purposes	<u>(127,808)</u>	<u>(184,924)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 1,659,420</u>	<u>\$ 1,178,794</u>

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13. RECLASSIFICATIONS

Certain reclassifications have been made to the previously reported consolidated financial statements and accompanying notes to make the prior year comparable to those of the current year. Such reclassifications had no effect on previously reported operations or net assets.

14. CORONAVIRUS PANDEMIC

The outbreak of the novel coronavirus has adversely impacted global commercial activity and contributed to significant declines and volatility in financial markets. The coronavirus pandemic and government responses are creating disruption in global supply chains and adversely impacting many industries. The outbreak could have a continued material adverse impact on economic and market conditions and trigger a period of global economic slowdown. The rapid development and fluidity of this situation precludes any prediction as to the ultimate material adverse impact of the novel coronavirus. Nevertheless, the novel coronavirus presents material uncertainty and risk with respect to Habitat, its performance, and its financial results.