

Habitat for Humanity of Pinellas County, Inc. and Subsidiaries

Consolidated Financial Report and Compliance Report
June 30, 2020

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RSM US LLP

Independent Auditor's Report

Board of Directors
Habitat for Humanity of Pinellas County, Inc.

We have audited the accompanying consolidated financial statements of Habitat for Humanity of Pinellas County, Inc. and Subsidiaries (the Organization), which comprise the consolidated statement of financial position as of June 30, 2020, the related consolidated statements of activities and changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements (collectively, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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.

Opinion

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

Emphasis of Matter – Recently Adopted Accounting Pronouncements

As discussed in Note 1 to the accompanying financial statements, the Organization adopted new accounting guidance, Accounting Standards Update 2014-09, *Revenue from Contracts with Customers (Topic 606)* and Accounting Standards Update 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. Our opinion is not modified with respect to this matter.

Other Matters – Prior Year Financial Statements

The financial statements of Habitat for Humanity of Pinellas County, Inc. and Subsidiaries as of and for the year ended June 30, 2019, were audited by other auditors, whose report dated October 14, 2019, expressed an unmodified opinion on those statements.

Other Matters – Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal Awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2020, on our consideration of Habitat for Humanity of Pinellas County, Inc. and Subsidiaries' internal control over financial reporting and on our tests of their compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Habitat for Humanity of Pinellas County, Inc. and Subsidiaries' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Habitat for Humanity of Pinellas County, Inc. and Subsidiaries' internal control over financial reporting and compliance.

RSM US LLP

St. Petersburg, Florida
November 16, 2020

Habitat for Humanity of Pinellas County, Inc. and Subsidiaries

**Consolidated Statements of Financial Position
Years Ended June 30, 2020 and 2019**

	2020	2019
Assets		
Cash and cash equivalents	\$ 8,439,609	\$ 5,127,943
Assets held in escrow	796,822	737,511
Accounts receivable	57,641	53,898
Unconditional promises to give, net	199,281	110,329
Habitat ReStore inventory	262,737	155,711
Homes under construction	1,767,797	1,268,090
Land held for development	2,729,696	2,620,711
Property and equipment, net	995,511	1,241,251
Mortgages receivable, net	778,112	838,945
Other mortgages receivable	771,110	805,226
Other receivables	358,720	143,573
Beneficial interest in assets held by foundations	22,135	20,000
Investment in joint venture	4,022,108	1,580,128
Deferred affordable housing notes receivable	350,000	350,000
Other assets	162,611	111,496
	<u>162,611</u>	<u>111,496</u>
Total assets	\$ 21,713,890	\$ 15,164,812
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 462,491	\$ 462,703
Deferred revenue – joint venture	-	12,323
Escrow deposits	826,742	664,096
Down payments and advance payments	44,100	55,053
Capital lease payable	55,519	66,594
Notes payable, net	9,264,810	4,703,203
Deferred affordable housing note payable	350,000	350,000
	<u>350,000</u>	<u>350,000</u>
Total liabilities	11,003,662	6,313,972
Commitments and contingencies (Notes 13 and 14)		
Net assets:		
Net assets without donor restrictions	10,241,308	8,412,482
Net assets with donor restrictions	468,920	438,358
	<u>468,920</u>	<u>438,358</u>
Total net assets	10,710,228	8,850,840
	<u>10,710,228</u>	<u>8,850,840</u>
Total liabilities and net assets	\$ 21,713,890	\$ 15,164,812
	<u>\$ 21,713,890</u>	<u>\$ 15,164,812</u>

See notes to consolidated financial statements.

Habitat for Humanity of Pinellas County, Inc. and Subsidiaries

Consolidated Statement of Activities and Changes in Net Assets Year Ended June 30, 2020 (With Summarized Comparative Totals for 2019)

	2020			2019 Total
	Without Donor Restrictions	With Donor Restrictions	Total	
Support and revenue:				
Contributions:				
Building materials and services	\$ 840,631	\$ 94,500	\$ 935,131	\$ 1,116,639
Donated land	74,968	130,924	205,892	16,912
Cash	2,092,194	273,577	2,365,771	2,011,283
Habitat ReStore merchandise	1,425,299	-	1,425,299	841,231
In-kind other	-	-	-	1,563
Transfers to homeowners	10,936,438	-	10,936,438	11,614,388
Gain on sale of mortgages	98,456	-	98,456	-
Mortgage discount amortization	48,743	-	48,743	35,096
Sales – Habitat ReStore	1,312,804	-	1,312,804	1,134,545
Fundraising events, net of direct costs of \$94,606	259,736	-	259,736	379,253
Foundations and grants	989,626	5,750	995,376	548,715
Other	208,799	-	208,799	207,956
Investment income from joint venture	2,111	-	2,111	39,811
Net assets released from restrictions	474,189	(474,189)	-	-
Total support and revenue	18,763,994	30,562	18,794,556	17,947,392
Expenses:				
Program:				
Construction	13,687,019	-	13,687,019	14,817,687
Mortgage discounts	102,906	-	102,906	98,566
Habitat ReStore	2,240,743	-	2,240,743	1,892,262
Supporting services:				
General and administrative	445,972	-	445,972	294,380
Fundraising	587,514	-	587,514	524,762
Total expenses	17,064,154	-	17,064,154	17,627,657
Changes in net assets before other changes	1,699,840	30,562	1,730,402	319,735
Other changes:				
Interest expense	(76,883)	-	(76,883)	(17,841)
Loss on sale of land and property and equipment	(152,946)	-	(152,946)	(20,207)
Forgiveness of debt	346,492	-	346,492	338,647
Contribution from West Pasco Habitat for Humanity, Inc.	-	-	-	1,281,642
Amortization of joint venture deferred revenue	12,323	-	12,323	28,701
Total other changes	128,986	-	128,986	1,610,942
Changes in net assets	1,828,826	30,562	1,859,388	1,930,677
Net assets:				
Beginning	8,412,482	438,358	8,850,840	6,920,163
Ending	\$ 10,241,308	\$ 468,920	\$ 10,710,228	\$ 8,850,840

See notes to consolidated financial statements.

Habitat for Humanity of Pinellas County, Inc. and Subsidiaries

Consolidated Statement of Activities and Change in Net Assets Year Ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue:			
Contributions:			
Building materials and services	\$ 1,060,639	\$ 56,000	\$ 1,116,639
Donated land	-	16,912	16,912
Cash	1,851,933	159,350	2,011,283
Habitat ReStore merchandise	841,231	-	841,231
In-kind other	1,563	-	1,563
Transfers to homeowners	11,614,388	-	11,614,388
Mortgage discount amortization	35,096	-	35,096
Sales – Habitat ReStore	1,134,545	-	1,134,545
Fundraising events, net of direct costs of \$270,219	379,253	-	379,253
Foundations and grants	538,715	10,000	548,715
Other	207,956	-	207,956
Investment income from joint venture	39,811	-	39,811
Net assets released from restrictions	406,322	(406,322)	-
Total support and revenue	18,111,452	(164,060)	17,947,392
Expenses:			
Program:			
Construction	14,817,687	-	14,817,687
Mortgage discounts	98,566	-	98,566
Habitat ReStore	1,892,262	-	1,892,262
Supporting services:			
General and administrative	294,380	-	294,380
Fundraising	524,762	-	524,762
Total expenses	17,627,657	-	17,627,657
Changes in net assets before other changes	483,795	(164,060)	319,735
Other changes:			
Interest expense	(17,841)	-	(17,841)
Loss on sale of land and property and equipment	(20,207)	-	(20,207)
Forgiveness of debt	338,647	-	338,647
Contribution from West Pasco Habitat for Humanity, Inc.	1,281,642	-	1,281,642
Amortization of joint venture deferred revenue	28,701	-	28,701
Total other changes	1,610,942	-	1,610,942
Changes in net assets	2,094,737	(164,060)	1,930,677
Net assets:			
Beginning	6,317,745	602,418	6,920,163
Ending	\$ 8,412,482	\$ 438,358	\$ 8,850,840

See notes to consolidated financial statements.

Habitat for Humanity of Pinellas County, Inc. and Subsidiaries

Consolidated Statement of Functional Expenses
 Year Ended June 30, 2020
 (With Summarized Comparative Totals for 2019)

	2020										2019 Total
	Program Services				Supporting Services						
	Construction	Mortgage Discounts	Habitat ReStore	Total Program Services	General and Administrative	Fundraising	Total Supporting Services	Total			
Salaries	\$ 1,904,145	\$ -	\$ 491,771	\$ 2,395,916	\$ 256,445	\$ 467,823	\$ 724,268	\$ 3,120,184	\$	\$ 2,679,115	
Employee benefits	237,194	-	98,575	335,769	29,056	41,013	70,069	405,838		320,175	
Retirement plan	19,091	-	4,146	23,237	5,554	1,920	7,474	30,711		33,919	
	<u>2,160,430</u>	<u>-</u>	<u>594,492</u>	<u>2,754,922</u>	<u>291,055</u>	<u>510,756</u>	<u>801,811</u>	<u>3,556,733</u>		<u>3,033,209</u>	
Building materials and supplies	10,247,453	-	-	10,247,453	-	-	-	10,247,453		11,611,820	
Insurance and taxes	150,896	-	28,577	179,473	-	-	-	179,473		138,410	
Repairs and maintenance	15,209	-	-	15,209	-	-	-	15,209		15,810	
Depreciation and amortization	120,867	-	10,344	131,211	38,437	-	38,437	169,648		188,281	
Mortgage discounts	-	102,906	-	102,906	-	-	-	102,906		98,566	
Office supplies, equipment and utilities	203,550	-	19,940	223,490	9,144	9,124	18,268	241,758		262,923	
Printing and advertising	58,643	-	300	58,943	-	12,853	12,853	71,796		90,130	
Travel	55,906	-	13,613	69,519	3,230	5,456	8,686	78,205		148,700	
Professional services	139,122	-	975	140,097	73,851	3,795	77,646	217,743		244,446	
Other	83,912	-	33,552	117,464	16,805	32,080	48,885	166,349		172,584	
Donated merchandise sold	-	-	1,312,804	1,312,804	-	-	-	1,312,804		904,670	
Purchased merchandise sold	-	-	100,539	100,539	-	-	-	100,539		64,381	
Rent	275,464	-	125,607	401,071	13,450	13,450	26,900	427,971		406,327	
Bad debt expense	25,567	-	-	25,567	-	-	-	25,567		15,900	
Support of Habitat for Humanity International	150,000	-	-	150,000	-	-	-	150,000		231,500	
	<u>\$ 13,687,019</u>	<u>\$ 102,906</u>	<u>\$ 2,240,743</u>	<u>\$ 16,030,668</u>	<u>\$ 445,972</u>	<u>\$ 587,514</u>	<u>\$ 1,033,486</u>	<u>\$ 17,064,154</u>	<u>\$</u>	<u>\$ 17,627,657</u>	

See notes to consolidated financial statements.

Habitat for Humanity of Pinellas County, Inc. and Subsidiaries

Consolidated Statement of Functional Expenses Year Ended June 30, 2019

	Program Services			Total Program Services	Supporting Services			Total
	Construction	Mortgage Discounts	Habitat ReStore		General and Administrative	Fundraising	Total Supporting Services	
Salaries	\$ 1,742,808	\$ -	\$ 414,923	\$ 2,157,731	\$ 124,725	\$ 396,659	\$ 521,384	\$ 2,679,115
Employee benefits	182,412	-	71,522	253,934	28,828	37,413	66,241	320,175
Retirement plan	24,208	-	4,613	28,821	3,852	1,246	5,098	33,919
	1,949,428	-	491,058	2,440,486	157,405	435,318	592,723	3,033,209
Building materials and supplies	11,611,820	-	-	11,611,820	-	-	-	11,611,820
Insurance and taxes	114,870	-	19,594	134,464	3,946	-	3,946	138,410
Repairs and maintenance	14,725	-	-	14,725	1,050	35	1,085	15,810
Depreciation and amortization	149,928	-	8,127	158,055	30,226	-	30,226	188,281
Mortgage discounts	-	98,566	-	98,566	-	-	-	98,566
Office supplies, equipment and utilities	199,180	-	45,902	245,082	6,342	11,499	17,841	262,923
Printing and advertising	67,893	-	7,637	75,530	-	14,600	14,600	90,130
Travel	102,758	-	35,931	138,689	241	9,770	10,011	148,700
Professional services	168,614	-	940	169,554	72,057	2,835	74,892	244,446
Other	87,681	-	37,125	124,806	10,093	37,685	47,778	172,584
Donated merchandise sold	-	-	904,670	904,670	-	-	-	904,670
Purchased merchandise sold	-	-	64,381	64,381	-	-	-	64,381
Rent	103,390	-	276,897	380,287	13,020	13,020	26,040	406,327
Bad debt expense	15,900	-	-	15,900	-	-	-	15,900
Support of Habitat for Humanity International	231,500	-	-	231,500	-	-	-	231,500
	\$ 14,817,687	\$ 98,566	\$ 1,892,262	\$ 16,808,515	\$ 294,380	\$ 524,762	\$ 819,142	\$ 17,627,657

See notes to consolidated financial statements.

Habitat for Humanity of Pinellas County, Inc. and Subsidiaries

Consolidated Statements of Cash Flows
Years Ended June 30, 2020 and 2019

	2020	2019
Cash flows from operating activities:		
Changes in net assets	\$ 1,859,388	\$ 1,930,677
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Depreciation	146,841	127,628
Amortization of intangibles	22,807	60,653
Amortization of loan costs	50,536	24,373
Bad debt expense	25,567	15,900
Investment income from joint venture	(2,111)	(39,811)
Mortgage discount amortization	(48,743)	(35,096)
Net donated materials and labor	(17,500)	(77,000)
Gain on sale of mortgages	(98,456)	-
Mortgage discounts	102,906	98,566
Loss (gain) on sale of land held for investment or sale	157,068	(43,335)
(Gain) loss on sale of property and equipment	(4,122)	20,207
Donated land for development	(205,892)	(16,912)
Forgiveness of debt	(346,492)	(338,647)
Contribution from West Pasco Habitat for Humanity, Inc.	-	(1,281,642)
(Increase) decrease in:		
Accounts receivable	(3,743)	(6,702)
Other receivables	(215,147)	(33,236)
Unconditional promises to give	(114,519)	4,033
Land held for development	(1,388,626)	(2,090,282)
Habitat ReStore inventory	(107,026)	52,319
Homes under construction	667,189	1,568,210
Other assets	(76,057)	(82,729)
(Decrease) increase in:		
Accounts payable and accrued expenses	(212)	33,157
Deferred revenue in joint venture	(12,323)	(28,701)
Escrow deposits	162,646	11,178
Down payments and advance payments	(10,953)	25,453
Net cash provided by (used in) operating activities	543,026	(101,739)
Cash flows from investing activities:		
Cash received from acquisition of West Pasco Habitat for Humanity, Inc.	-	254,618
Proceeds from sale of land held for development	179,069	79,326
Proceeds from sale of property and equipment	117,238	-
Purchases of property and equipment	(14,217)	(28,003)
Contributions to investment in joint venture	(4,022,108)	-
Distributions from investment in joint venture	-	23,276
Proceeds from sale and payments received on mortgages	139,242	130,367
Net cash (used in) provided by investing activities	(3,600,776)	459,584

(Continued)

Habitat for Humanity of Pinellas County, Inc. and Subsidiaries

Consolidated Statements of Cash Flows (Continued)
Years Ended June 30, 2020 and 2019

	2020	2019
Cash flows from financing activities:		
Payments on notes payable	\$ (5,020,443)	\$ (1,231,375)
Proceeds from notes payable	11,680,107	1,826,459
Payments of deferred financing costs	(219,862)	-
Payments on capital lease obligations	(11,075)	(30,699)
Net cash provided by financing activities	6,428,727	564,385
Net increase in cash	3,370,977	922,230
Cash and cash equivalents (including assets held in escrow):		
Beginning	<u>5,865,454</u>	4,943,224
Ending	<u>\$ 9,236,431</u>	<u>\$ 5,865,454</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	<u>\$ 94,289</u>	<u>\$ 16,144</u>
Supplemental schedule of noncash investing transactions:		
Acquisition of property and equipment through capital leases	<u>\$ -</u>	<u>\$ 77,259</u>
Transfers of property to homeowners through issuance of mortgages receivable	<u>\$ 9,916,062</u>	<u>\$ 11,614,388</u>

See notes to consolidated financial statements.

Habitat for Humanity of Pinellas County, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 1. Nature of Organization and Significant Accounting Policies

Habitat for Humanity of Pinellas County, Inc. (Habitat) was incorporated in January 1985. Habitat is an affiliate of Habitat for Humanity International, Inc. (Habitat International), a nondenominational Christian, not-for-profit organization, whose mission is to build and repair simple, decent, affordable houses for those who lack adequate shelter. Although Habitat International assists with information resources, training, publications, prayer support and in other ways, Habitat is primarily and directly responsible for its own operations.

Pinellas Funding Company I, LLC (Pinellas Funding) was incorporated in July 2013 and is solely-owned by Habitat. Pinellas Funding was formed to complete the sale of mortgages with PNC Bank (see Note 17). Pinellas Funding purchased mortgages from Habitat and subsequently sold these mortgages to PNC Bank.

On August 31, 2010, Pinellas County Habitat for Humanity Community Development Organization (Pinellas CHDO) was incorporated as a not-for-profit organization in accordance with the laws of the State of Florida. Pinellas CHDO is wholly-owned by Habitat and has met the requirements specified by the U.S. Department of Housing and Urban Development (HUD) to act in the capacity of a Community Housing Development Organization (CHDO) and has been certified by Pinellas County, Florida. As a result, Pinellas CHDO is eligible to participate in government programs that provide special set-aside funds that can be used to provide affordable housing to low income families within Pinellas County.

The following are the significant policies used in the preparation of the accompanying consolidated financial statements:

Principles of consolidation: The accompanying consolidated financial statements include the accounts of Habitat, Pinellas Funding and Pinellas CHDO (collectively, the Organization), which are not-for-profit corporations. The entities comprising the Organization are related through a controlling financial interest and Habitat's direct and indirect ability to determine the direction of management. All significant intercompany accounts and transactions have been eliminated in the consolidation.

Basis of accounting: The consolidated 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 of America (U.S. GAAP), whereby revenue is recognized when earned and expenses are recognized when incurred.

Basis of presentation: A not-for-profit organization 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. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Net assets without donor restrictions: Contributions and other inflows of assets that are not subject to donor imposed stipulations, but may be designated for specific purposes by actions of the Board of Directors (Board). This designation may be removed at the Board's discretion. Net assets without donor restrictions include expendable funds available to support operations as well as net assets invested in property and equipment.

Net assets with donor restrictions: Contributions and other inflows of assets subject to donor-imposed stipulations. Some donor-imposed restrictions are temporary in nature, such as those that will be met by actions of the Organization or by the passage of time. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates resources be maintained in perpetuity. Donor-restricted contributions for which restrictions are met within the same year as received are reported as contributions without donor restrictions.

Use of estimates: The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported revenues and expenses. Accordingly, actual results could differ from those estimates.

Habitat for Humanity of Pinellas County, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

Fair value measurements: The Organization measures beneficial interest in assets held by foundations at fair value on a recurring basis (at least annually). The Organization defines fair value in accordance with U.S. GAAP, which specifies a hierarchy of valuation techniques used to measure fair value. The disclosure of fair value estimates is based on whether the significant inputs into the valuation are observable. In determining the level of hierarchy in which the estimate is disclosed, the highest priority is given to unadjusted quoted prices in active markets and the lowest priority to unobservable inputs.

The following is a brief description of the type of valuation information (inputs) that qualifies a financial asset for each level:

Level 1: Unadjusted quoted market prices for identical assets or liabilities in active markets which are accessible by the Organization.

Level 2: Observable prices in active markets for similar assets or liabilities. Prices for identical or similar assets or liabilities in markets that are not active. Market inputs that are not directly observable but are derived from or corroborated by observable market data.

Level 3: Unobservable inputs based on the Organization's own judgment as to assumptions a market participant would use, including inputs derived from extrapolation and interpolation that are not corroborated by observable market data.

The Organization evaluates the various types of financial assets to determine the appropriate fair value hierarchy based upon trading activity and the observability of market inputs. The Organization employs control processes to validate the reasonableness of the fair value estimates of its assets and liabilities, including those estimates based on prices and quotes obtained from independent third-party sources.

While the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies and assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the report date.

During the years ended June 30, 2020 and 2019, there were no changes to the Organization's valuation techniques that had, or are expected to have, a material impact on its consolidated statements of financial position or activities and changes in net assets.

Cash and cash equivalents: Cash and cash equivalents consist of cash on deposit with financial institutions. The Organization considers all highly liquid assets with an initial maturity of three months or less as cash. Financial instruments which potentially subject the Organization to concentrations of credit risk consist principally of cash held in financial institutions in excess of federally insured limits. From time to time the Organization's cash balances may have exceeded the federally insured limit. However, the Organization has not experienced, and does not expect, to incur any losses in such accounts.

Assets held in escrow: The Organization currently services the mortgages 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 and offset by escrow deposits, a related liability.

Accounts receivable and other receivables: Accounts receivable consist of various amounts due from homeowners and homeowner candidates. Other receivables consists of second mortgages, a note receivable in connection with a new markets tax credit program (see Note 9), and amounts due from various financial institutions. Management estimates the allowance for uncollectible accounts receivable and other receivables based on a review of the individual receivable outstanding as of the end of the year. The Organization has determined that all amounts are collectible; accordingly, no allowance for potentially uncollectible accounts has been recorded at June 30, 2020 and 2019.

Habitat for Humanity of Pinellas County, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

Unconditional promises to give: Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Unconditional contributions that are restricted by the donor are reported as increases in net assets without donor restrictions, if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, or when a pledge becomes due, net assets with donor restrictions are reclassified to net assets without donor restrictions.

Unconditional promises to give that are expected to be collected within one year are recorded as contributions receivable at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated cash flows. Conditional promises to give are not included as support until the performance and/or control barriers are substantially met.

The Organization uses the allowance method to determine uncollectible unconditional promises. The allowance is based on prior years' experience and management's analysis of specific promises made.

At June 30, 2020 and 2019, the Organization recorded allowances in the amount of \$28,000 and \$20,000, respectively.

Habitat ReStore inventory: Habitat ReStore inventory includes donated and purchased household building materials, appliances and furniture that are sold at the Habitat ReStores. Donated merchandise is stated at its estimated fair market value, which is determined based on its future economic benefit. During the years ended June 30, 2020 and 2019, the Organization estimated the fair market value of donated merchandise to be approximately \$1,425,000 and \$841,000, respectively. Purchased merchandise is stated at lower of cost or net realizable value, with cost being determined by the first-in, first-out method.

Homes under construction: Homes under construction consist of labor, material and lot costs using the specific identification method, and include indirect construction costs incurred during the construction period. When the home is ultimately sold, construction costs are expensed and reported as building materials and supplies in the consolidated statements of functional expenses. As the purpose and mission of the Organization is to build affordable housing for low-income families, the Organization does not generally write down the value of homes under construction to estimated sales value, because any excess cost over sales value is a component of program services. Habitat transferred 54 and 62 homes to homeowners during the years ended June 30, 2020 and 2019, respectively.

Land held for development: Land held for development includes the cost of land and land improvements or, if donated, the approximate fair value of the land at the date of the donation, held for future construction of homes. Land held for development is carried as the lower of costs or net realizable value.

Property and equipment: Property and equipment are recorded at acquisition cost, including costs necessary to prepare the asset for its intended use, less accumulated depreciation. Depreciation expense is provided on a straight-line basis over the estimated useful lives of the assets ranging from 3 to 10 years.

Maintenance and repairs are charged to expense as incurred, while renewals and betterments in excess of \$1,000 are capitalized. Upon retirement, sale or other disposition of property and equipment, the costs and accumulated depreciation are eliminated from the accounts and any resulting gain or loss is included within the consolidated statements of activities and changes in net assets.

Habitat for Humanity of Pinellas County, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

Impairment of long-lived assets: The Organization's long-lived assets, such as land, building and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized for the amount by which the carrying amount exceeds the fair value of the asset. The Organization determined there was no impairment on long-lived assets as of June 30, 2020 and 2019.

Mortgages receivable, net and other mortgages: Mortgages receivable consist predominantly of non-interest bearing residential first mortgages secured by real estate and payable in monthly installments over the life of the mortgage, generally ranging from 5 to 35 years. Non-interest-bearing mortgages have been discounted based upon prevailing market rates for low income housing at the inception of the mortgages, as provided by Habitat International. This discount will be recognized as mortgage discount amortization income over the term of the mortgage.

In addition to the mortgages receivable included in the consolidated statements of financial position, the Organization also enters into equity creation agreements with certain homebuyers. These equity creation agreements known as a silent second mortgage originate at the same time of the first mortgage and reflect the difference between the purchase price and the fair market value of the house. This equity creation agreement is part of the mortgage document and is executed for protection against homeowners who may sell their house for a profit before the mortgage is repaid, and to protect the homeowner by preventing predatory lenders from paying off the first mortgage and saddling the homeowners with an onerous new mortgage. This amount is considered forgiven by the mortgagee over the life of the mortgage and the mortgagor agrees that the remaining balance is secured by the mortgage until forgiven in full. The Organization does not record a value for the equity creation agreements as it is unlikely that the amount will ever be collected.

The Organization uses established underwriting criteria to ensure that only families who meet the Organization's financial and credit criteria are approved to be partner families and receive a non-interest-bearing mortgage loan from the Organization. This includes, but is not limited to, a thorough review of each prospective homeowner's credit report, sources of income and financial history.

The Organization regularly reviews its mortgages receivable and monitors the accounts for delinquencies. The Organization has documented delinquency procedures that are followed starting with 10 to 15 days after the payment due date. Once a payment is 120 days or more late, the Organization will turn the file over to its attorney who will send a letter or other notice as required by law. If the homeowner does not cure the default, foreclosure proceedings are initiated.

Non-interest-bearing mortgages originated are discounted based on prevailing market rates at the time of the sale, which results in the net mortgage receivable balances being generally less than 50% of the home's fair market value. Therefore, the Organization believes that losses resulting from nonpayment of mortgage notes receivable, given its collateral value, are not likely. Accordingly, the Organization has not recorded an allowance for mortgages receivable.

Debt issuance costs: Debt issuance costs are amortized using the straight-line method over the expected life of the related debt, which approximates the effective interest method, and are presented as a direct deduction from the face amount of the financings (see Note 11). The related expense is included in interest expense in the consolidated statements of activities and changes in net assets.

Habitat for Humanity of Pinellas County, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

Investment in joint venture: The Organization makes investments in various companies to facilitate New Markets Tax Credit transactions (see Note 9). The Organization accounts for their investment under the equity method of accounting as they maintain significant influence over the investment, however, do not have control.

Beneficial interest in assets held by foundations: The beneficial interest in assets held by foundations is recorded at fair value in the consolidated statements of financial position.

Other assets: Other assets consist mainly of prepaid expenses, refundable deposits and intangible assets. In accordance with U.S. GAAP, if an intangible asset is determined to have an indefinite useful life, it shall not be amortized until its useful life is determined to be no longer indefinite.

Revenue recognition: Effective July 1, 2019, the Organization adopted Financial Accounting Standards Board (FASB) Accounting Standard Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)* using the modified retrospective method of transition and ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* using the modified prospective method of transition. No cumulative effect adjustment to net assets upon adoption of these standards was recorded as of July 1, 2019. The identified impacts resulted in additional disclosures, however, did not have a material effect on the Organization's overall consolidated financial statements as of and for the year ended June 30, 2020 from amounts that would have been reported under legacy U.S. GAAP. In addition, the adoption of Topic 606 had no impact to cash provided by or used for operating, financing or investing on the Organization's consolidated statements of cash flows.

These ASUs replaced existing revenue recognition guidance, including industry-specific guidance that require revenue to be recognized consistent with the consideration the Organization expected to be entitled for services provided. The Organization first determines if a transaction represents an exchange transaction and if so, accounts for the transaction under Topic 606, 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.

The Organization's revenue from contracts with customers consists of transfers to homeowners and Habitat ReStore sales. The Organization's contracts have a single performance obligation. The transaction price is the amount of consideration to which the Organization expects to be entitled in exchange for transferring goods to the customer. Revenue is recorded based on transaction price, which is a fixed consideration. The Organization recognizes Habitat ReStore sales at a point in time when control of the goods is passed to the customer, which typically occurs at point of sale and is also when customer payment is collected. Sales from the Habitat ReStore are reported net of sales tax collected.

The Organization recognizes revenue from home sales at a point in time, when a closing occurs. A closing is considered to occur when title, possession and other attributes of ownership have been transferred to the buyer; and the Organization is not obligated to perform significant activities and changes in net assets after the sale. Revenue from the sale of homes is recorded in the consolidated statements of activities and changes in net assets as transfers to homeowners. Transfers to homeowners are recorded at the gross mortgage amount plus down payment received.

Federal, state and local government and other grant transactions within the scope of Topic 606, if any, are recognized as support when performance occurs pursuant to the contract agreement.

Habitat for Humanity of Pinellas County, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

The Organization performs an evaluation at contract inception focused on whether a performance obligation is satisfied over time or at a point in time. Performance obligations meeting certain specific criteria, is recognized over time as the customer consumes and receives the benefit of the Organization's services as they are performed. If certain criteria is not met, the revenue is recognized at a point in time.

All revenue recognized under Topic 606 is recognized at a point in time.

The Organization has elected to apply Topic 606 only to those contracts that were not completed as of July 1, 2019. The reported results for 2020 reflect the application of Topic 606 guidance while reported results for prior years were prepared under the guidance of Accounting Standards Codification (ASC) 605, *Revenue Recognition (ASC 605)*. In adopting ASC 606, the Organization utilized the following practical expedients, which did not have as significant effect on the consolidated financial statements:

- The Organization has not restated contracts that begin and are completed in the same annual reporting period.
- For contracts that were modified before the beginning of the earliest reporting period presented in accordance with Topic 606, the Organization has not retrospectively restated the contract for those modifications and instead reflected the aggregate effect of those modifications when identifying the satisfied and unsatisfied performance obligations, determining the transaction price and allocating the transaction price to the satisfied and unsatisfied performance obligations.

Revenue recognition on contracts and grants deemed to be non-exchange transactions follow Topic 958. Unconditional contributions received, including promises to give, cash, other assets and grants and contracts deemed to be non-exchange transactions, are recorded as support to net assets with or without donor restrictions, at estimated fair value, depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purposes restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and are reported in the consolidated statements of activities and changes in net assets as net assets released from restrictions.

Conditional contributions are those contributions that certain donor imposed rights of refund/return and barriers (performance obligations and/or controlling stipulations). Conditional contributions are recognized into revenue when conditions are satisfied and then follow the above policies for unconditional contributions. Conditional contributions received in advance of satisfying conditions are recorded as deferred revenue.

The Organization accounts for sales of mortgages receivable under FASB ASC 860-20, Sales of Financial Assets. Gain on sale of loans sold are recognized when the loans are sold and include cash from any sale and the write off of any discounts on the mortgage loans.

Donated services, materials, and land: Donated services, materials, and land are recorded as increases in net assets without donor restrictions unless the use of the related assets is limited by donor imposed restrictions. Donated services, materials and land are reflected in the accompanying consolidated statements of activities, at their estimated fair market values at the date of receipt. Habitat reports revenues for the fair value of donated services received when the services require specialized skills, are provided by individuals possessing those skills, and represent services that would have been purchased had they not been donated.

During the years ended June 30, 2020 and 2019, Habitat recorded donation revenue of approximately \$935,000 and \$1,117,000, respectively, related to donations of building materials and services. During the years ended June 30, 2020 and 2019, Habitat received approximately \$206,000 and \$17,000, respectively, in donated lots from various financial institutions and donors recorded at their tax assessed just market value which approximates fair value.

Habitat for Humanity of Pinellas County, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

Advertising costs: Advertising costs are expensed as incurred and were approximately \$72,000 and \$90,000 for the years ended June 30, 2020 and 2019, respectively.

Income tax status: Habitat and Pinellas CHDO are not-for-profit organizations that are exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC), and are exempt from federal income taxes on related income pursuant to Section 501(a) of the IRC. Pinellas Funding is a disregarded entity and, therefore, revenues and expenses flow through to Habitat for federal tax purposes. Accordingly, no provision for income taxes is reflected in the accompanying consolidated financial statements.

The Organization has adopted the accounting standard on accounting for uncertain income taxes, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the consolidated financial statements. Under this policy, the Organization may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position would be sustained on examination by taxing authorities, based on the technical merits of the position. Management has evaluated the Organization's tax position and had concluded the Organization has taken no uncertain tax positions that require disclosure.

The Organization would be liable for income taxes in the U.S. federal jurisdiction. Generally, the Organization is no longer subject to U.S. federal tax examinations by tax authorities before 2017.

Functional expense allocation: The costs of providing the programs and supporting services have been reported on a functional basis in the consolidated statements of activities and changes in net assets and functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefitted.

Program and supporting expenses, when specifically identifiable, are classified to the function which incurred the expense. Expenses allocated using management's estimate of time spent include payroll, employee benefits, and retirement plan expenses. Expenses allocated using management's estimate of usage include professional services, certain insurance, and depreciation and amortization. Lastly, expenses allocated using square footage include rent and utilities.

Reclassification: Certain amounts in the 2019 consolidated financial statements have been reclassified to conform to the 2020 presentation. Net assets and changes in net assets were unchanged due to these reclassifications.

Newly adopted accounting pronouncements: In May 2014, FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, to clarify the principles used to recognize revenue for all entities. Subsequently, in August 2015, FASB issued ASU 2015-14, which delayed the effective date for nonpublic companies to annual periods beginning after December 15, 2018. The ASU was further delayed until annual periods beginning after December 15, 2019, early adoption is permitted. The adoption of this ASU, using the modified prospective method of transition, resulted in additional disclosures but did not materially impact the consolidated financial statements.

Habitat for Humanity of Pinellas County, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. It is intended to reduce diversity in the presentation of restricted cash (assets held in escrow) and restricted cash equivalents in the statement. The statement requires that restricted cash (assets held in escrow) and restricted cash equivalents be included as components of total cash and cash equivalents as presented on the consolidated statements of cash flows. The adoption of this ASU did not materially impact the consolidated financial statements.

In June 2018, FASB issued ASU 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*, to clarify the definition of an exchange transaction and contribution and to clarify accounting for the same. The standard is effective for nonpublic entities for fiscal years beginning after December 15, 2019. The adoption of this ASU, using the modified prospective method of transition, did not materially impact the consolidated financial statements.

Recent accounting pronouncements: In February 2016, FASB issued ASU 2016-02, *Leases, (Topic 842)*, which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e. lessees and lessors). The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principal of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease, respectively. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. The new standard requires lessors to account for leases using an approach that is substile equivalent to existing guidance capital leases. The standard is effective for annual periods beginning after December 15, 2021 (the Organization's June 30, 2023 consolidated financial statements), with early adoption permitted. The Organization is in the process of evaluating the impact of this new guidance.

Subsequent events: Management has evaluated all events subsequent to the consolidated statements of financial position date of June 30, 2020 through November 16, 2020, which is the date the consolidated financial statements were available to be issued. There were no subsequent events that would require adjustment to or disclosure in the accompanying consolidated financial statements.

Note 2. Business Combination

Effective March 1, 2019, West Pasco Habitat for Humanity (West Pasco), a not-for-profit organization whose mission was to build and repair affordable houses in Pasco County, Florida, merged with Habitat. Habitat was the surviving corporation and upon completion of the transaction, West Pasco was dissolved. As a result, Habitat will better utilize staffing, increase opportunities to engage more people in the community, and serve more families locally and abroad.

Habitat for Humanity of Pinellas County, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 2. Business Combination (Continued)

Habitat has accounted for this acquisition of West Pasco as a business combination, in accordance with ASC 958, by recording the assets acquired and liabilities assumed of West Pasco as of March 1, 2019, at estimated fair value. No consideration was transferred. The net value of assets and liabilities received is recorded as an inherent contribution in the consolidated statement of activities and changes in net assets. Acquired equipment was recorded at net book value. Land and buildings were valued using appraised values and other observable inputs. Mortgages and notes receivable, net of discount were recorded using the face value of the loan, net of discount. All other assets acquired were recorded at their net realizable value at the date of acquisition, which approximates fair value. Assumed liabilities were recorded at amounts due at the acquisition date. The following table summarizes the estimated fair values of assets and liabilities at March 1, 2019 (acquisition date):

Cash and cash equivalents	\$ 254,618
Property and equipment	681,281
Mortgage and notes receivable, net of discount	496,798
Land held for development and homes under construction	830,866
Other assets	30,828
Total assets	<u>2,294,391</u>
Accounts payable and accrued expenses	31,279
Other liabilities	11,007
Notes payable, net	970,463
Total liabilities	<u>1,012,749</u>
Total net assets transferred to Habitat	<u>\$ 1,281,642</u>

The following is a summarized consolidated statement of activities for West Pasco for the eight months ended February 28, 2019:

Revenues	\$ 606,571
Expenses	<u>(702,926)</u>
Change in net assets	<u>\$ (96,355)</u>

Note 3. Availability and Liquidity

The Organization maintains a policy of structuring its financial assets to be available as its general expenditures, liabilities and other obligations come due. Generally, the Organization strives to maintain a minimum amount of cash on hand equal to 90 days of operating expense. Additionally, the Organization may draw upon its line of credit (Note 11) to manage cash flows should the liquidity need arise. The following represents the Organization's financial assets available to meet general expenditures over the next 12 months at June 30:

	2020	2019
Cash and cash equivalents, less use restrictions of \$13,750 and \$97,500 at June 30, 2020 and 2019, respectively	\$ 8,425,859	\$ 5,030,443
Accounts receivable	57,641	53,898
Unconditional promises to give (due in less than one year)	123,952	92,967
Mortgages receivable (due in less than one year)	114,471	121,089
	<u>\$ 8,721,923</u>	<u>\$ 5,298,397</u>

Habitat for Humanity of Pinellas County, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 4. Unconditional Promises to Give

Unconditional promises to give consist of the following at June 30:

	2020	2019
Gross unconditional promises to give	\$ 237,884	\$ 136,094
Less allowance for uncollectible promises	(28,000)	(20,000)
Less unamortized discount	(10,603)	(5,765)
Unconditional promises to give, net	<u>\$ 199,281</u>	<u>\$ 110,329</u>
	2020	2019
Amounts due in:		
Less than one year	\$ 123,952	\$ 92,967
One to four years	113,932	43,127
	<u>\$ 237,884</u>	<u>\$ 136,094</u>

Promises to give with due dates extending beyond one year are discounted to present value using treasury bill rates with similar term investments with an added amount for economic uncertainty. The applicable discount rate for amounts due in more than one year was approximately 3%.

At June 30, 2020 and 2019, approximately \$26,000 and \$16,000 respectively, of unconditional promises to give were deemed uncollectible and written off.

Note 5. Property and Equipment

Property and equipment consists of the following at June 30:

	2020	2019
Vehicles	\$ 215,061	\$ 215,061
Furniture and fixtures	96,423	96,423
Land	232,787	255,787
Buildings	516,311	595,845
Leasehold improvements	373,030	373,030
Signage	41,908	54,880
Construction equipment	52,690	52,690
Office equipment	257,290	256,647
	1,785,500	1,900,363
Less accumulated depreciation	(789,989)	(659,112)
	<u>\$ 995,511</u>	<u>\$ 1,241,251</u>

Depreciation expense was approximately \$147,000 and \$128,000 for the years ended June 30, 2020 and 2019, respectively.

Habitat for Humanity of Pinellas County, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 6. Mortgages Receivable, Net

Mortgages receivable, net consist of the following at June 30:

	2020	2019
Non-interest bearing loans at par value	\$ 1,487,555	\$ 1,592,681
Less unamortized discount based on imputed interest	(709,443)	(753,736)
	<u>\$ 778,112</u>	<u>\$ 838,945</u>

All loans were deemed performing as of June 30, 2020 and 2019. Loans are deemed performing if they are less than 90 days delinquent, or if on an approved payment plan and current with the terms of the plan. No amounts were past due as of June 30, 2020 and 2019.

As of June 30, 2020, the balances due on the mortgages that are scheduled to be received for the next five years and thereafter are as follows:

Years ending June 30,	
2021	\$ 114,471
2022	107,359
2023	102,903
2024	98,941
2025	90,941
Thereafter	972,940
	<u>\$ 1,487,555</u>

The initial amount of each mortgage loan approximates the Organization's cost to build the house, plus mortgage discount expense. The residential mortgage loans have been discounted to reflect their economic value. The interest rates used to determine the discount range from 3.0% to 10.0% and are based on prevailing market rates, as provided by either Habitat International or applicable federal rates, in the year the mortgage originated. The discount rate used for the years ended June 30, 2020 and 2019, was 7.66%. The discount is calculated by computing the present value of each of the non-interest-bearing notes using the applicable discount rate.

The Organization typically sells mortgages receivable to various financial institutions at face value. During the years ended June 30, 2020 and 2019, the Organization sold mortgages receivable with a face value of \$9.9 million and \$11.4 million, respectively. The Organization recognized a gain on sale of mortgages of approximately \$98,000 during the year ended June 30, 2020. No gains or losses on the sale of mortgages were recognized during the year ended June 30, 2019.

The Organization services loans which it had sold to various banks. Under the agreements with the banks, the Organization agrees to service all loans in accordance with all applicable federal and state laws and regulations, and customary practices, policies and procedures for servicing residential mortgage loans. Additionally, in the event a loan becomes in default, the loan is subject to certain recourse by the bank.

Habitat for Humanity of Pinellas County, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 7. Beneficial Interest in Assets Held By Foundations

The Organization established funds within the Pinellas Community Foundation (PCF) in the amount of \$10,000 and Community Foundation of Tampa Bay (CFTB) in the amount of \$10,000. The Fund agreements grant variance power to the respective Community Foundations and has named the Organization the beneficiary. Earnings on the funds, net of any service fees, will be periodically distributed to the Organization in accordance with the agreement. The Organization has received approximately \$1,000 in earnings on these accounts for each of the years ended June 30, 2020 and 2019. The trust assets are composed of cash and cash equivalents, fixed income, equity securities, and real and tangible asset funds. The portfolio is managed by an investment company with oversight by PCF and CFTB. As of June 30, 2020 and 2019, the Organization's investment in beneficial interest in assets held by foundations totaled approximately \$22,000 and \$20,000, respectively, and is reflected as an asset and net assets with donor restrictions in perpetuity.

Note 8. Fair Value Measurement

The Organization's investments are reported at fair value in the accompanying consolidated statements of financial position. Following is a description of the valuation methodologies used for investments that are measured at fair value.

Beneficial interest in assets held by foundations: the investments are managed by a third-party unrelated to the Organization. The trust assets are valued based upon the third-party information without adjustment. The Organization does not develop, nor are they provided with, the quantitative inputs used to develop the fair market values. The change in value during the year ended June 30, 2020 was solely the result of investment income.

Fair value of assets measured on a recurring basis at June 30, 2020 and 2019, is as follows:

	Estimated Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
2020				
Beneficial interest in assets held by foundations	\$ 22,135	\$ -	\$ -	\$ 22,135
2019				
Beneficial interest in assets held by foundations	\$ 20,000	\$ -	\$ -	\$ 20,000

Habitat for Humanity of Pinellas County, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 9. Investment in Joint Venture

The Organization participates in New Markets Tax Credit (NMTC) programs. NMTC financing allows an entity to receive a loan or investment capital from outside investors, who will receive new markets tax credits to be applied against their federal tax liability. The programs provide funds to eligible organizations for investment in “qualified low-income community investment”. Program compliance requirements included creation of a promissory note and investment in a qualified community development entity (CDE). Tax credit recapture is required if compliance requirements are not met over a seven-year period.

The Organization invested, along with four other Habitat affiliates, in a joint venture (HFHI-SA Leverage IX, LLC) to take advantage of NMTC financing. As a result, the Organization invested approximately \$1,530,000 and was able to secure a 15-year loan in the amount of \$2,023,656 payable to a community development entity. The loan accrued interest only for years one through seven at a reduced rate of .755%. During the year ended June 30, 2019, the loan was forgiven and HFHI-SA Leverage IX, LLC was dissolved. All remaining income was distributed to the Organization. The Organization recognized approximately \$338,600 of forgiveness of debt income during the year ended June 30, 2019.

In August 2012, the Organization invested, along with other Habitat affiliates, in a joint venture (CCML Leverage II LLC) to take advantage of NMTC financing. As a result, the Organization invested \$100,000 of cash plus a leverage amount of construction in process value of \$1,330,132. With this initial investment, the Organization was able to secure a 16-year loan in the amount of \$1,880,000 payable to CCM Community Development XXVII (CCM), an affiliate of the joint venture. The loan accrued interest only for years one through seven at a reduced rate of .7608%. Beginning in years 8 through 15, the principal balance of the loan was reduced by an 8-year amortization at the same rate of .7608% (see Note 12). During the year ended June 30, 2020, the loan was forgiven and CCML Leverage II LLC was dissolved. All remaining income was distributed to the Organization. The Organization recognized approximately \$300,000 of forgiveness of debt income during the year ended June 30, 2020.

In December 2019, the Organization invested in a partnership (Habitat Pinellas Leverage III, LLC), with 95.0% ownership to take advantage of NMTC financing. As a result, the Organization has invested \$4,032,750 and was able to secure two 20-year loans in the amount of \$4,245,000 and \$1,755,000 payable to a community development entity. The loan proceeds are to be used solely for the purpose of acquiring, rehabbing and/or constructing single-family homes in qualified census tracts and selling all homes to low income persons. The loans are interest only for years 1 through 7 at a reduced rate of 0.7076% per year. Beginning in year 8 through year 20 the principal balance of the loan is reduced by a twelve-year amortization at the same rate of 0.7076%. In December 2026, Hancock Whitney New Markets Investor 37, LLC (the Fund), and the upstream effective owner of Hancock Whitney New Markets CDE 37, LLC (holder of the promissory note due from the Organization) is expected to exercise its put option. Under the terms of the put option agreement, Habitat Pinellas Leverage III, LLC is expected to purchase the ownership interest of the Fund. Exercise of the option will effectively allow the Organization to extinguish its outstanding debt owed to the Fund.

Investments in joint ventures are accounted for under the equity method, with the Organization’s share of the operating results of the joint venture reflected in investment income from joint venture. During each of the years ended June 30, 2020 and 2019, investment income from joint ventures was approximately \$2,000 and \$40,000, respectively.

Habitat for Humanity of Pinellas County, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 10. Capital Lease Payable

The Organization acquired equipment through capital lease arrangements. Equipment under the capital leases totaled \$77,259 at June 30, 2020 and 2019. Depreciation expense reported in the consolidated statements of activities and changes in net assets for the year ended June 30, 2020, was approximately \$15,000. No depreciation expense was recorded on the equipment as of June 30, 2019.

Minimum payments required under the capital lease during the following fiscal years ending June 30, are as follows:

Years ending June 30:		
2021	\$	13,399
2022		14,064
2023		14,068
2024		14,073
2025		3,592
Total minimum lease payments		59,196
Less interest portions included in payments		(3,677)
Present value of lease obligations	\$	<u>55,519</u>

Note 11. Notes Payable

	2020	2019
Loans payable to Habitat International as part of the SHOP 2010 grant, with total monthly payments ranging from \$545 to \$951 at 0% interest; maturing between January 2018 and January 2021.	\$ 3,692	\$ 7,346
Loans payable to Habitat International as part of the SHOP 2011 grant with total monthly payments ranging from \$456 to \$971 at 0% interest; maturing between January 2019 and January 2021.	4,680	9,315
Loans payable to Habitat International as part of the SHOP 2012 grant with total monthly payments ranging from \$290 to \$362 at 0% interest; maturing between July 2019 and January 2022.	1,476	3,474
Loans payable to Habitat International as part of the SHOP 2013 grant with total monthly payments ranging from \$74 to \$444 at 0% interest; maturing between July 2020 and January 2023.	24,091	34,828
Loans payable to Habitat International as part of the SHOP 2014 grant with monthly payments of \$520 beginning January 2018, at 0% interest; maturing January 2022.	10,960	15,640
Loans payable to Habitat International as part of the SHOP 2015 grant with monthly payments of \$677 beginning July 2019, at 0% interest; maturing July 2023.	26,407	32,500

(Continued)

Habitat for Humanity of Pinellas County, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 11. Notes Payable (Continued)

	2020	2019
Loans payable to Habitat International as part of the SHOP 2016 grant with total monthly payments ranging from \$70 to \$768 beginning January 2020, at 0% interest; maturing through January 2026.	\$ 89,000	\$ 23,750
Loans payable to Habitat International as part of the SHOP 2017 grant with total monthly payments ranging from \$145 to \$510 beginning January 2022, at 0% interest; maturing through July 2026.	40,625	-
Note payable from Pinellas Funding to PNC Community Development Company, LLC for \$1,004,236 with monthly payments of \$2,843 at 0% interest until maturity at June 2043; collateralized by assignment of notes (see Note 17).	771,110	805,226
Note payable to CCM (see Note 9), debt requires interest only payments until November 2019 at .7608%. Beginning November 2019, semiannual payments to fully amortize the remaining balance through maturity in July 2028.	-	1,880,000
Note payable to Hancock Whitney New Markets CDE 37, LLC (see Note 9), debt requires interest only. Loan A \$4,245,000 and Loan B \$1,755,000. Debt requires interest only payments through December 2026 and matures in December 2039. The loan is secured by substantially all the assets acquired by the Organization from the loan proceeds. Debt has a put option feature that is exercisable on December 25, 2026.	6,000,000	-
Note payable of \$56,000 to the City of Clearwater for the purchase of N. Garden Avenue property with 0% interest, and collateralized by real property. No principal payments required until home is sold and then \$8,000 of unpaid principal shall be repaid. The remaining amount was forgiven by the City of Clearwater during the year ended June 30, 2020.	-	28,000
Note Payable to the City of Clearwater for the construction of N. Garden Avenue with 0% interest and a maturity date on April 2021, collateralized by the property. Principal, less a 12% developer fee, was repaid during 2020.	-	98,334
Three (3) \$15,000 notes payable to the City of St. Petersburg for three parcels of land with 0% interest, and collateralized by real property. The loans are forgiven if the home is owned by an eligible homeowner through January 2030 and March 2030.	45,000	-

(Continued)

Habitat for Humanity of Pinellas County, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 11. Notes Payable (Continued)

	2020	2019
Note payable to Pinellas County for the purchase of Habitat Pinellas Park Sub property with 0% interest. Principal is due at the earlier of the borrowers' sale of the property or September 2021.	\$ 840,000	\$ 840,000
\$192,250 available note payable to Pinellas County for the purchase and development of property with 0% interest and a maturity date of February 2023, collateralized by the property. No payments are due until the earlier of the maturity date or the date the property is sold.	31,250	-
\$192,250 available note payable to Pinellas County for the purchase and development of property with 0% interest and a maturity date of February 2023, collateralized by the property. No payments are due until the earlier of the maturity date or the date the property is sold.	31,250	-
\$212,500 note payable to Pinellas County for the purchase and development of property with 0% interest and a maturity date of December 2021, collateralized by the property. Repayment of the balance will be forgiven upon the sale of the property as approved by Pinellas County. The Organization is required to remain in compliance with a land use restriction for 14 years.	205,000	-
Paycheck Protection Program note payable with 1% interest and matures April 2022. Monthly principal and interest payments due beginning December 2020, unless forgiven in accordance with the CARES Act.	536,607	-
Note payable of \$500,363 to a bank for the purchase of Madison Street building. Monthly payments of \$3,309 with 4.95% interest until maturity at June 2023, collateralized by the building. The note was refinanced during the year ended June 30, 2020.	-	395,895
Note payable of \$410,000 to a bank to refinance outstanding note payable. The note bears interest at 4.75% and requires monthly principal and interest payments of \$4,312 through August 2029. The loan is collateralized by Madison St. building.	357,550	-

(Continued)

Habitat for Humanity of Pinellas County, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 11. Notes Payable (Continued)

	2020	2019
Note payable of \$166,884 to Pasco County for the purchase of property with 0% interest and a maturity date at the earlier of the borrowers' sale of the property or September 2021.	\$ 125,163	\$ 146,024
Note payable of \$244,000 to Pasco County for the purchase of property with 0% interest and a maturity date at the earlier of the borrowers' sale of the property or September 2021, collateralized by the property.	244,000	244,000
Note payable of \$26,295 to Pasco County for the purchase of Leisure Lane and Van Doren properties with 0% interest and a maturity date at the earlier of the borrowers' sale of the property or September 2021, collateralized by the property. The note payable was paid off during 2020.	-	26,295
Note payable of \$12,900 to Pasco County for the purchase of Leisure Lane property with 0% interest and a maturity date at the earlier of the borrowers' sale of the property or September 2021, collateralized by the property.	12,900	12,900
Note payable of \$18,861 to Pasco County for the purchase of Leisure Lane property with 0% interest and a maturity date at the earlier of the borrowers' sale of the property or September 2021, collateralized by the property.	18,861	18,861
Note payable of \$10,460 to Pasco County for the purchase of Van Doren Avenue property with 0% interest and a maturity date at the earlier of the borrowers' sale of the property or September 2021, collateralized by the property.	10,460	10,460
Note payable of \$20,600 to Pasco County for the purchase of Van Doren Avenue property with 0% interest and a maturity date at the earlier of the borrowers' sale of the property or September 2021, collateralized by the property.	20,600	20,600

(Continued)

Habitat for Humanity of Pinellas County, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 11. Notes Payable (Continued)

	<u>2020</u>	<u>2019</u>
Note payable of \$50,000 to Pasco County for the purchase of Lake Drive property with 0% interest and matures upon sale of the property. The loan was forgiven during 2020.	\$ -	\$ 50,000
Note payable of \$16,301 to Pasco County for the purchase of Terra Ceia Avenue property with 0% interest and matures upon sale of the property. The loan was forgiven during 2020.	-	16,301
	<u>9,450,682</u>	<u>4,719,749</u>
Debt issuance costs, net of accumulated amortization	(185,872)	(16,546)
	<u>\$ 9,264,810</u>	<u>\$ 4,703,203</u>

The following is a summary of future contractual debt maturities during each of the following years ending June 30:

2021	\$ 591,226
2022	1,534,901
2023	227,939
2024	163,462
2025	125,874
Thereafter	6,807,280
	<u>\$ 9,450,682</u>

Habitat for Humanity of Pinellas County, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 11. Notes Payable (Continued)

Undisbursed commitments to borrow: In the ordinary course of business, the Organization has entered into various lending arrangements, which include undisbursed commitments to borrow. Undisbursed commitments to borrow and the available borrowing amount at June 30, 2020 are as follows:

	Total Commitment	Available as of June 30, 2020
\$192,250 available note payable to Pinellas County for the purchase and development of property with 0% interest and a maturity date of February 2023, collateralized by the property. No payments are due until the earlier of the maturity date or the date the property is sold.	\$ 192,250	\$ 161,000
\$192,250 available note payable to Pinellas County for the purchase and development of property with 0% interest and a maturity date of February 2023, collateralized by the property. No payments are due until the earlier of the maturity date or the date the property is sold.	192,250	161,000
\$157,550 available note payable to Pinellas County for the purchase and development of property with 0% interest and a maturity date of January 2023, collateralized by the property. No payments are due until the earlier of the maturity date or the date the property is sold.	157,550	157,550
\$157,550 available note payable to Pinellas County for the purchase and development of property with 0% interest and a maturity date of January 2023, collateralized by the property. No payments are due until the earlier of the maturity date or the date the property is sold.	157,550	157,550
\$130,000 available non-revolving loan payable to City of Clearwater for the purchase and development of property with 0% interest and a maturity of December 2021, collateralized by the property. Principal payments, less a 12% developer fee, are due the earlier of the maturity date or the date that the property is sold.	130,000	130,000
	<u>\$ 829,600</u>	<u>\$ 767,100</u>

Additionally, the Organization maintains a line of credit through a financial institution that allows the Organization to borrow up to \$350,000 for the purpose of short-term working capital. The outstanding amount of the line of credit plus accrued interest is due on December 31, 2020. Interest is payable monthly at 30-day Libor Rate plus 2.5% (with a floor of 3.5% and a ceiling of 5.5%). There were no draws on the line of credit during the years ended June 30, 2020 and 2019.

Habitat for Humanity of Pinellas County, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 11. Notes Payable (Continued)

During the year ended June 30, 2020, the Organization incurred debt issuance costs of approximately \$220,000 in connection with the issuance of notes payable above. During the year ended June 30, 2019, the Organization incurred no additional debt issuances costs. Debt issuance costs are presented as a reduction of notes payable to be amortized over the term of the loan. The components of debt issuance costs are as follows:

	2020	2019
Loan costs	\$ 191,088	\$ 28,227
Less accumulated amortization	(5,216)	(11,681)
Total direct debt costs, net	<u>\$ 185,872</u>	<u>\$ 16,546</u>

Interest expense related to the direct debt costs for the years ended June 30, 2020 and 2019, was \$50,536 and \$6,316, respectively.

Note 12. Net Assets With Donor Restrictions

Net assets with donor restrictions were as follows at June 30:

	2020	2019
Subject to expenditure for specified purpose or time restriction:		
Unconditional promises to give, net of unamortized discount	\$ 227,281	\$ 130,329
Use restriction	13,750	97,500
Donated labor and materials	94,500	56,000
Donated land	113,389	134,529
Subject to spending policy:	448,920	418,358
Beneficial interest in assets held by foundations	20,000	20,000
	<u>\$ 468,920</u>	<u>\$ 438,358</u>

Net assets released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time as follows for the years ended June 30:

	2020	2019
Unconditional promises to give, net of unamortized discount	\$ 168,625	\$ 94,783
Use restriction	97,500	54,786
Donated labor and materials	56,000	77,000
Donated land	152,064	179,753
	<u>\$ 474,189</u>	<u>\$ 406,322</u>

Habitat for Humanity of Pinellas County, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 13. Leases

The Organization leases its office and two ReStore locations under non-cancelable operating lease agreements with expiration dates through June 2022. In addition to monthly base rent, the Organization is required to pay 5% of ReStore sales to the landlord. Total rent expense was approximately \$428,000 and \$406,000 for the years ended June 30, 2020 and 2019, respectively.

Based on the terms of the agreements, the minimum payments, excluding the percentage of Habitat ReStore's gross sales, due on all leases are as follows:

Years ending June 30:	
2021	\$ 363,421
2022	204,619
	<u>\$ 568,040</u>

Note 14. Commitments and Contingencies

Litigation: The Organization is exposed to various asserted and unasserted potential claims encountered in the normal course of business. In the opinion of management, the resolution of these matters will not have a material effect on the Organization's consolidated financial position or the results of its operations.

Grantors: Certain expenditures incurred by the Organization are subject to audit and possible disallowance by federal and state agencies. Management believes that, if audited, an adjustment for disallowed expenses would be immaterial. Additionally, certain properties sold maintain land use restrictions over a period of time which require the properties to be owned by families of low-income. Noncompliance with the land use restriction could result in repayment of all or a portion of previous amounts forgiven. Management believes the Organization is in compliance with land use restrictions through June 30, 2020.

COVID-19: On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and on March 11, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, and quarantines in certain areas, and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate the spread of it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the geographical area in which the Organization operates. On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was enacted to amongst other provisions, provide emergency assistance for individuals, families and businesses affected by the coronavirus pandemic. It is unknown how long the adverse conditions associated with the coronavirus will last and what the complete financial effect will be to the Organization. Additionally, it is reasonably possible that estimates made in the consolidated financial statements have been, or will be, impacted in the near term as a result of these conditions.

The Organization received proceeds from the Paycheck Protection Program (see Note 11). Under the terms of the loan, certain amounts may be forgiven if they are used for qualifying expenses, as described in the CARES Act. Qualifying expenses including payroll costs, continuation of health care benefits, mortgage payments, rent, utilities and interest on other debt obligations. The Organization intends to use the entire loan amount for qualifying expenses, however, no assurance can be given that expenditures will qualify or be forgiven.

Habitat for Humanity of Pinellas County, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 15. Transactions With Habitat International

The Organization remits a portion of its contributions without donor restrictions to Habitat International as tithe to support its operations. The Organization contributed approximately \$150,000 and \$232,000 to Habitat International during the years ended June 30, 2020 and 2019, respectively. These amounts are included in program services expense in the consolidated statement of activities and changes in net assets.

Note 16. Community Development Block Grant

On June 15, 2006, the Organization was awarded a Community Development Block Grant (Grant) from Pinellas County, Florida in the amount of \$350,000. Under the Grant, the Organization acquired 2.5 acres of land in Dunedin, Florida and constructed 18 affordable home ownership housing units. If the homebuyer sells the property between years 6 and 20, the Organization is required to return a prorated portion of the funds back to Pinellas County. The Organization has recorded a second mortgage on the properties to secure its interest in the properties. Both an asset for the second mortgage and a corresponding liability of \$350,000 due to Pinellas County, are recorded as a deferred affordable housing note, and are reflected in the June 30, 2020 and 2019 consolidated statements of financial position. The amounts will be forgiven in 2026 if the homebuyers do not sell the properties.

Note 17. Sale of Mortgages With PNC Bank

In August 2013, Pinellas Funding was formed as a single member LLC with Habitat as the member. During 2014, Pinellas Funding acquired seven mortgages from Habitat with a carrying value of \$666,422. Pinellas Funding then entered into a note purchase agreement with PNC Bank. Pinellas Funding authorized the issuance and sale of the mortgages with a face value of \$1,004,236 to PNC Bank for \$666,422 on August 29, 2013. This transaction did not meet the requirements under ASC 860 to be treated as a sale due to the Organization maintaining effective control and involvement with the mortgage receivables. Accordingly, the mortgages receivable were not derecognized and are recorded in other mortgages receivable in the accompanying consolidated statements of financial position in the amount of \$771,110 and \$805,226 at June 30, 2020 and 2019, respectively. Additionally, the Organization recorded a note payable due to PNC Bank. See Note 11 for the terms and outstanding balance of the offsetting PNC note payable at June 30, 2020 and 2019.

Note 18. Retirement Plan

The Organization has a 401(k) profit sharing plan that provides for a discretionary matching contribution. For the years ended June 30, 2020 and 2019, the Organization made contributions of approximately \$31,000 and \$34,000 respectively.

Note 19. Conditional Promises to Give from Grantors

The Organization has conditional grants to give from Habitat International of \$161,500 as of June 30, 2020. Future payments are contingent upon the Organization carrying out certain activities (meeting grant imposed barriers) stipulated by the grant.

Habitat for Humanity of Pinellas County, Inc. and Subsidiaries

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2020

Federal Agency Pass-Through Entity Federal Program Pass-Through Entity Pgram or Cluster Title	CFDA Number	Agency or Pass-Through Identifying Number	Federal Expenditures	Passed Through to Subrecipients
U.S. Department of Housing and Urban Development (HUD):				
Passed through Pinellas County, Florida				
Community Development Block Grant/Entitlement Grants	14.218	Not Applicable	\$ 350,000	* \$ -
Community Development Block Grant/Entitlement Grants	14.218	Not Applicable	205,000	-
Passed through City of Clearwater, Florida				
Community Development Block Grant/Entitlement Grants	14.218	Not Applicable	15,000	-
Community Development Block Grant/Entitlement Grants	14.218	Not Applicable	28,000	* -
Passed through City of St. Petersburg, Florida				
Community Development Block Grant/Entitlement Grants	14.218	Not Applicable	6,860	-
Community Development Block Grant/Entitlement Grants	14.218	Not Applicable	750	-
Community Development Block Grant/Entitlement Grants	14.218	Not Applicable	4,010	-
Community Development Block Grant/Entitlement Grants	14.218	Not Applicable	750	-
Community Development Block Grant/Entitlement Grants	14.218	Not Applicable	14,150	-
Community Development Block Grant/Entitlement Grants	14.218	Not Applicable	750	-
Community Development Block Grant/Entitlement Grants	14.218	Not Applicable	15,349	-
Community Development Block Grant/Entitlement Grants	14.218	Not Applicable	750	-
Total CFDA 14.218			<u>641,369</u>	<u>-</u>
Passed through City of St. Petersburg, Florida				
HOME Investment Partnerships Program	14.239	Not Applicable	15,000	-
HOME Investment Partnerships Program	14.239	Not Applicable	15,000	-
HOME Investment Partnerships Program	14.239	Not Applicable	15,000	-
HOME Investment Partnerships Program	14.239	Not Applicable	15,000	-
Passed through City of Clearwater, Florida				
HOME Investment Partnerships Program	14.239	Not Applicable	98,334	* -
HOME Investment Partnerships Program	14.239	Not Applicable	11,137	-
HOME Investment Partnerships Program	14.239	Not Applicable	99,718	-
HOME Investment Partnerships Program	14.239	Not Applicable	11,762	-
Total CFDA 14.239			<u>280,951</u>	<u>-</u>
Passed through Habitat for Humanity International, Inc.				
Self-Help Homeownership Opportunity Program	14.247	Not Applicable	126,853	* -
Self-Help Homeownership Opportunity Program	14.247	Not Applicable	105,875	-
Self-Help Homeownership Opportunity Program	14.247	Not Applicable	317,625	-
			<u>550,353</u>	<u>-</u>
Subtotal – (HUD)			<u>1,472,673</u>	<u>-</u>
Total federal awards			<u>\$ 1,472,673</u>	<u>\$ -</u>

* This represents the balance of a loan from a previous year which the federal government imposes the continuing compliance requirements.

See accompanying notes to schedule of expenditures of federal awards and independent auditor's report.

Habitat for Humanity of Pinellas County, Inc. and Subsidiaries

Notes to Schedule of Expenditures of Federal Awards

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Habitat for Humanity of Pinellas County, Inc. (Habitat). The information in this schedule is presented in accordance with the requirements of Subpart F of Title 2 U.S. Code of Federal Regulations (CFR), Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Habitat, it is not intended to and does not present the financial position, changes in net assets or cash flows of Habitat.

Some amounts presented in the schedule may differ from amounts presented or used in the preparation of the consolidated financial statements.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3. Indirect Costs

Habitat has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

Note 4. Self-Help Homeownership Opportunity Program

HUD's Self-Help Homeownership Opportunity Program (SHOP) grants and loans were passed through to Habitat by Habitat for Humanity International, Inc. (Habitat International). The SHOP Agreement stipulates that 75% of each sub-grant from Habitat International to the affiliate is in the form of a grant and 25% is in the form of a loan. The awards provided under CFDA 14.247 for SHOP were as follows for the year ended June 30, 2020:

Pass-Through Grantor	Identifying Number	Federal Expenditures
Habitat International	SHOP 2010 – Existing Loans	\$ 7,346 *
Habitat International	SHOP 2011 – Existing Loans	9,315 *
Habitat International	SHOP 2012 – Existing Loans	3,474 *
Habitat International	SHOP 2013 – Existing Loans	34,828 *
Habitat International	SHOP 2014 – Existing Loans	15,640 *
Habitat International	SHOP 2015 – Existing Loans	32,500 *
Habitat International	SHOP 2016 – Existing Loans	23,750 *
Habitat International	SHOP 2016 – New Loans (25%)	65,250
Habitat International	SHOP 2017 – New Loans (25%)	40,625
		<u>232,728</u>
Habitat International	SHOP 2016 – New Grant (75%)	195,750
Habitat International	SHOP 2017 – New Grant (75%)	121,875
		<u>317,625</u>
		<u>\$ 550,353</u>

*Represents the balance of a loan from a previous year that the federal government imposes the continuing compliance requirements equaling \$126,853.

Habitat for Humanity of Pinellas County, Inc. and Subsidiaries

Notes to Schedule of Expenditures of Federal Awards

Note 5. Loans

Habitat has the following loan balances at June 30, 2020:

CFDA Number	Description	Original Loan Amount	Balance at July 1, 2019	New Loans	Payments	Balance at June 30, 2020
14.218	Shady Grove	\$ 350,000	\$ 350,000	\$ -	\$ -	\$ 350,000
14.218	Ridgecrest/Largo	205,000	-	205,000	-	205,000
14.239	1211 N Garden	28,000	28,000	-	(28,000)	-
14.239	1209 Garden Construction	98,334	98,334	-	(98,334)	-
14.239	1205 Blanche B Littlejohn Construction	99,718	-	99,718	-	99,718
14.247	SHOP 2010 – Loans	45,778	7,346	-	(3,654)	3,692
14.247	SHOP 2011 – Loans	46,665	9,315	-	(4,635)	4,680
14.247	SHOP 2012 – Loans	20,881	3,474	-	(1,998)	1,476
14.247	SHOP 2013 – Loans	57,416	34,828	-	(10,737)	24,091
14.247	SHOP 2014 – Loans	25,000	15,640	-	(4,680)	10,960
14.247	SHOP 2015 – Loans	32,500	32,500	-	(6,093)	26,407
14.247	SHOP 2016 – Loans	23,750	23,750	65,250	-	89,000
14.247	SHOP 2017 – Loans	40,625	-	40,625	-	40,625

**Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance With *Government Auditing Standards***

Independent Auditor's Report

Board of Directors
Habitat for Humanity of Pinellas County, Inc. and Subsidiaries

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated statements of financial position of Habitat for Humanity of Pinellas County, Inc. and Subsidiaries (the Organization) as of June 30, 2020, the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, which collectively comprise the Organization's basic financial statements, and have issued our report thereon dated November 16, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Organization's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable probability that a material misstatement of the Organization's consolidated financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

RSM US LLP

St. Petersburg, Florida
November 16, 2020



RSM US LLP

**Report on Compliance for Each Major Program
and Report on Internal Control over Compliance Required by the Uniform Guidance**

Independent Auditor's Report

Board of Directors
Habitat for Humanity of Pinellas County, Inc. and Subsidiaries

Report on Compliance for Each Major Federal Program

We have audited Humanity of Pinellas County, Inc. and Subsidiaries' (the Organization) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended June 30, 2020. The Organization's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Organization's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

Opinion on Each Major Federal Program

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2020.

Report on Internal Control over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

RSM US LLP

St. Petersburg, Florida
November 16, 2020

Habitat for Humanity of Pinellas County, Inc. and Subsidiaries

**Schedule of Findings and Questioned Costs
Year Ended June 30, 2020**

Section I – Summary of Auditor’s Report

Financial Statements

Type of auditor’s report issued on whether the financial statements audited were prepared in accordance with U.S. GAAP:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

_____ Yes X No

Significant deficiency(ies) identified?

_____ Yes X None reported

Noncompliance material to financial statements noted?

_____ Yes X No

Federal Awards

Internal control over major federal programs:

Material weakness(es) identified?

_____ Yes X No

Significant deficiency(ies) identified?

_____ Yes X None reported

Type of auditor’s report issued on compliance for major program:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 2 CFR 200.516(a)?

_____ Yes X No

Identification of major programs:

CFDA Number

14.247

Name of Federal Program or Cluster

Self-Help Homeownership Opportunity Program

Dollar threshold used to distinguish between Type A and Type B programs:

\$750,000

Auditee qualified as low-risk auditee?

X Yes _____ No

Section II – Financial Statement Findings

None Reported

Section III – Findings and Questions Costs for Federal Awards

None Reported

Habitat for Humanity of Pinellas County, Inc. and Subsidiaries

**Summary Schedule of Prior Audit Findings
Year Ended June 30, 2020**

There were no findings reported for the year ended June 30, 2019.