

**HABITAT FOR HUMANITY OF EVANSVILLE, INC.  
AND SUBSIDIARY**

**CONSOLIDATED FINANCIAL STATEMENTS**

*Years Ended June 30, 2019 and 2018*

*(With Independent Auditor's Report Thereon)*

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Habitat for Humanity of Evansville, Inc. and Subsidiary

We have audited the accompanying consolidated financial statements of Habitat for Humanity of Evansville, Inc. and Subsidiary (a nonprofit organization), which comprise the consolidated statements of financial position as of June 30, 2019 and 2018, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

### Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Habitat for Humanity of Evansville, Inc. and Subsidiary as of June 30, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Riney Hancock CPAs PSC*

Evansville, Indiana  
September 24, 2019

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**HABITAT FOR HUMANITY OF EVANSVILLE, INC. AND SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<b>ASSETS</b>		
Current assets:		
Cash	\$ 660,426	\$ 1,131,168
Certificates of deposit	1,630,803	1,605,421
Promises to give, current	366,486	262,906
Houses available for sale	75,107	138,238
Construction in process	824,159	759,448
Land held for development	439,191	399,165
Current portion of mortgages receivable, net	696,936	664,064
Other current assets	<u>62,177</u>	<u>135,274</u>
 Total current assets	 4,755,285	 5,095,684
Other assets:		
Mortgages receivable, net	4,196,851	3,816,525
Investment in joint venture	961,571	971,351
Promises to give, net	252,153	95,455
Beneficial interest in assets held by others	49,379	39,553
Property and equipment, net	<u>162,218</u>	<u>134,724</u>
 Total other assets	 <u>5,622,172</u>	 <u>5,057,608</u>
 <b>Total assets</b>	 <b>\$ <u>10,377,457</u></b>	 <b>\$ <u>10,153,292</u></b>
 <b>LIABILITIES AND NET ASSETS</b>		
Current liabilities:		
Accounts payable	\$ 71,625	\$ 76,625
Accrued expenses	40,287	41,509
Other current liabilities	<u>15,210</u>	<u>10,130</u>
 Total current liabilities	 127,122	 128,264
 Long-term debt	 <u>1,374,211</u>	 <u>1,371,518</u>
 Total liabilities	 1,501,333	 1,499,782
Net assets:		
Without Donor Restrictions	8,196,540	8,239,824
With Donor Restrictions	<u>679,584</u>	<u>413,686</u>
 Total net assets	 <u>8,876,124</u>	 <u>8,653,510</u>
 <b>Total liabilities and net assets</b>	 <b>\$ <u>10,377,457</u></b>	 <b>\$ <u>10,153,292</u></b>

See Notes to Consolidated Financial Statements.

**HABITAT FOR HUMANITY OF EVANSVILLE, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF ACTIVITIES**

Years Ended June 30, 2019 and 2018

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<b>Revenue and Support:</b>						
Contributions and grants	\$ 1,682,486	\$ 521,377	\$ 2,203,863	\$ 1,487,891	\$ 43,124	\$ 1,531,015
Sales of homes	1,872,344	-	1,872,344	1,723,330	-	1,723,330
Mortgage discount amortization	544,733	-	544,733	355,407	-	355,407
ReStore income, net	469,006	-	469,006	412,095	-	412,095
Investment income	29,647	-	29,647	8,484	-	8,484
Gain on debt cancellation	-	-	-	923,923	-	923,923
Other income	49,163	-	49,163	101,631	-	101,631
Change in beneficial interest in assets held by others	-	1,336	1,336	-	1,939	1,939
Net assets released from restrictions	256,815	(256,815)	-	629,966	(629,966)	-
<b>Total revenue and other support</b>	<b>4,904,194</b>	<b>265,898</b>	<b>5,170,092</b>	<b>5,642,727</b>	<b>(584,903)</b>	<b>5,057,824</b>
<b>Expenses:</b>						
Program services:						
Construction costs	2,639,841	-	2,639,841	2,168,911	-	2,168,911
Restore	391,966	-	391,966	316,288	-	316,288
Other program costs	1,417,083	-	1,417,083	1,391,634	-	1,391,634
	4,448,890	-	4,448,890	3,876,833	-	3,876,833
Supporting services:						
General and administrative	218,122	-	218,122	218,221	-	218,221
Fundraising	280,466	-	280,466	288,619	-	288,619
	498,588	-	498,588	506,840	-	506,840
<b>Total expenses</b>	<b>4,947,478</b>	<b>-</b>	<b>4,947,478</b>	<b>4,383,673</b>	<b>-</b>	<b>4,383,673</b>
<b>Change in net assets</b>	<b>(43,284)</b>	<b>265,898</b>	<b>222,614</b>	<b>1,259,054</b>	<b>(584,903)</b>	<b>674,151</b>
<b>Net assets, beginning of year</b>	<b>8,239,824</b>	<b>413,686</b>	<b>8,653,510</b>	<b>6,980,770</b>	<b>998,589</b>	<b>7,979,359</b>
<b>Net assets, end of year</b>	<b>\$ 8,196,540</b>	<b>\$ 679,584</b>	<b>\$ 8,876,124</b>	<b>\$ 8,239,824</b>	<b>\$ 413,686</b>	<b>\$ 8,653,510</b>

See Notes to Consolidated Financial Statements.

**HABITAT FOR HUMANITY OF EVANSVILLE, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES**

Years Ended June 30, 2019 and 2018

	2019						
	Program Services				Supporting Services		
	Construction Costs	ReStore	Other	Total	General & Admin.	Fund- raising	Total
Cost of sales	\$ 2,410,804	\$ 20,788	\$ -	\$ 2,431,592	\$ -	\$ -	\$ 2,431,592
Mortgage discount	-	-	1,005,731	1,005,731	-	-	1,005,731
Salaries & related costs	229,037	186,378	150,820	566,235	89,227	176,807	832,269
Advertising	-	25,593	-	25,593	-	4,511	30,104
Bank charges	-	-	9,133	9,133	10,334	-	19,467
Depreciation	-	6,608	10,216	16,824	5,485	-	22,309
Insurance	-	5,993	6,146	12,139	2,828	-	14,967
Interest	-	-	12,473	12,473	-	-	12,473
Miscellaneous	-	1,105	5,361	6,466	9,579	10,070	26,115
Office	-	-	10,960	10,960	23,764	-	34,724
Printing & postage	-	-	9,532	9,532	2,139	33,766	45,437
Professional fees	-	-	62,578	62,578	17,794	-	80,372
Rent	-	92,348	32,400	124,748	12,090	-	136,838
Repairs & maintenance	-	28,340	2,491	30,831	-	-	30,831
Special events	-	-	-	-	-	51,191	51,191
Supplies	-	-	7,849	7,849	-	2,202	10,051
Telephone & utilities	-	10,421	13,362	23,783	13,133	-	36,916
Tithe & contributions	-	-	66,900	66,900	-	-	66,900
Travel & education	-	14,392	5,619	20,011	22,847	1,919	44,777
Volunteer	-	-	5,512	5,512	8,902	-	14,414
	<u>\$ 2,639,841</u>	<u>\$ 391,966</u>	<u>\$ 1,417,083</u>	<u>\$ 4,448,890</u>	<u>\$ 218,122</u>	<u>\$ 280,466</u>	<u>\$ 4,947,478</u>

	2018						
	Program Services				Supporting Services		
	Construction Costs	ReStore	Other	Total	General & Admin.	Fund- raising	Total
Cost of sales	\$ 1,952,971	\$ -	\$ -	\$ 1,952,971	\$ -	\$ -	\$ 1,952,971
Mortgage discount	-	-	877,391	877,391	-	-	877,391
Salaries & related costs	215,940	160,160	158,236	534,336	86,345	178,838	799,519
Advertising	-	17,288	-	17,288	-	7,223	24,511
Amortization	-	-	43,265	43,265	-	-	43,265
Bank charges	-	-	30,396	30,396	7,728	-	38,124
Depreciation	-	4,533	8,037	12,570	5,164	-	17,734
Insurance	-	4,850	6,633	11,483	4,062	-	15,545
Interest	-	-	24,735	24,735	-	-	24,735
Miscellaneous	-	27,651	18,805	46,456	20,319	30,136	96,911
Office	-	443	9,508	9,951	39,232	-	49,183
Printing & postage	-	-	9,433	9,433	899	40,429	50,761
Professional fees	-	-	71,920	71,920	14,960	-	86,880
Rent	-	76,254	29,700	105,954	11,562	-	117,516
Repairs & maintenance	-	4,653	6,350	11,003	-	-	11,003
Special events	-	-	-	-	-	29,364	29,364
Supplies	-	-	10,329	10,329	-	811	11,140
Telephone & utilities	-	10,832	9,895	20,727	8,669	-	29,396
Tithe & contributions	-	-	64,200	64,200	-	-	64,200
Travel & education	-	9,624	4,258	13,882	10,295	1,818	25,995
Volunteer	-	-	8,543	8,543	8,986	-	17,529
	<u>\$ 2,168,911</u>	<u>\$ 316,288</u>	<u>\$ 1,391,634</u>	<u>\$ 3,876,833</u>	<u>\$ 218,221</u>	<u>\$ 288,619</u>	<u>\$ 4,383,673</u>

See Notes to Consolidated Financial Statements.

**HABITAT FOR HUMANITY OF EVANSVILLE, INC. AND SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ 222,614	\$ 674,151
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	25,002	62,797
Gain on extinguishment of debt	-	(923,923)
Origination of mortgages	(1,799,192)	(1,588,363)
Transfer of homes to Habitat	-	48,129
Mortgage discount	1,005,731	877,391
Mortgage discount amortization	(544,733)	(355,407)
Donated land	(55,000)	-
Change in beneficial interest in assets held by others	(1,336)	(1,939)
Decrease (increase) in assets:		
Houses available for sale	63,131	(7,399)
Construction in process	(64,711)	(222,193)
Land held for development	14,974	19,110
Promises to give	(260,278)	584,711
Other current assets	73,097	(102,551)
Increase (decrease) in liabilities:		
Accounts payable	(5,000)	(13,863)
Accrued expenses	(1,222)	14,980
Other current liabilities	5,080	3,170
 Net cash used in operating activities	 <u>(1,321,843)</u>	 <u>(931,199)</u>
<b>Cash flows from investing activities:</b>		
Principal collected on mortgages	924,996	798,183
Purchases of property and equipment	(49,803)	(6,810)
Purchase of certificates of deposit	(25,382)	(1,605,421)
Distribution from joint venture investment	9,780	24,916
Purchase of joint venture investment	-	(977,844)
Transfer to beneficial interest in assets held by others	(8,490)	(2,075)
 Net cash provided by (used in) investing activities	 <u>851,101</u>	 <u>(1,769,051)</u>
<b>Cash flows from financing activities:</b>		
Proceeds on debt issuance, net of closing cost	-	1,369,721
 Net cash provided by investing activities	 <u>-</u>	 <u>1,369,721</u>
 Net decrease in cash	 (470,742)	 (1,330,529)
Cash, beginning of year	1,131,168	2,461,697
Cash, end of year	<u>\$ 660,426</u>	<u>\$ 1,131,168</u>
 <b>Supplemental disclosure of cash flow information:</b>		
Interest paid	<u>\$ 9,780</u>	<u>\$ 24,919</u>

See Notes to Consolidated Financial Statements.

# HABITAT FOR HUMANITY OF EVANSVILLE, INC. AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended June 30, 2019 and 2018

### 1. **Organization and Summary of Significant Accounting Policies**

#### Nature of Organization

Habitat for Humanity of Evansville, Inc. (HFHE) is an Indiana not-for-profit organization founded in 1984 whose mission is to build safe, decent and affordable houses with low-income families in partnership with God's people in need in Vanderburgh and Posey counties in Indiana. HFHE is an affiliate of Habitat for Humanity International, Inc. (HFHI), a Christian not-for-profit organization that seeks to eliminate poverty housing from the world and to make decent shelter a matter of conscience and action. Although HFHI assists with information resources, training, publications, prayer support, and in other ways, HFHE is primarily and directly responsible for its own operations.

HFHE builds houses utilizing volunteer labor and donated materials, in addition to paid services and materials. The houses are sold to qualified homebuyers at no profit with non-interest-bearing mortgages. Prospective homeowners must have a need for housing, the ability to pay the mortgage, and are required to participate in the construction of homes.

Habitat for Humanity of Evansville ReStore LLC (ReStore) is an Indiana limited liability company formed in 2017 that is a wholly owned subsidiary of Habitat for Humanity of Evansville, Inc. ReStore operates a home improvement store in Evansville, Indiana that sells new and used home furnishings, building materials, and home improvement materials to the general public. Donations to the ReStore are made by contractors and other businesses, organizations, and individuals that have surplus or discontinued merchandise. The purpose of the ReStore is to raise funds to support HFHE programs. As most revenue earned by the ReStore is from the sale of donated goods, ReStore revenue is classified as support in the consolidated statements of activities and changes in net assets.

#### Consolidated Financial Statements

The consolidated financial statements include the accounts of Habitat for Humanity of Evansville, Inc. and Habitat for Humanity of Evansville ReStore LLC. Such entities are collectively referred to as "Habitat" in the consolidated financial statements. All material inter-organization transactions have been eliminated.

#### Basis of Presentation

Habitat reports information regarding its financial position and activities based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:



# HABITAT FOR HUMANITY OF EVANSVILLE, INC. AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended June 30, 2019 and 2018

### 1. **Organization and Summary of Significant Accounting Policies, Continued**

#### Basis of Presentation, Continued

*Net Assets Without Donor Restrictions* – Net assets available for use in general operations and not subject to donor or grantor restrictions.

*Net Assets With Donor Restrictions* – Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of Habitat or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

#### Cash and Cash Equivalents

Habitat considers all highly liquid investments with an original maturity of 90 days or less to be cash equivalents.

#### Houses Available for Sale and Land Held for Development

Houses available for sale represent the cost of homes that Habitat has received from a qualifying family due to foreclosure on the mortgage.

Land held for development is stated at cost and includes land under development, developed lots, and capitalized property taxes and other costs incurred for development. Donated land is recorded as a contribution at the estimated value at the date of receipt. If donors stipulate a time period during which the land must be used, the contributions are recorded as support with donor restrictions. In the absence of such stipulations, contributions of land are recorded as support without donor restrictions.

Real estate assets are evaluated for impairment if impairment indicators are present. An impairment write-down to fair value less costs to sell occurs when management believes that events or changes in circumstances indicate that its carrying amount may not be recoverable.

#### Construction In Process

Costs incurred in conjunction with home construction are capitalized as construction in process. Capitalized construction costs are expensed when ownership transfers to the homeowners. Any post-settlement costs are expensed as incurred.

# HABITAT FOR HUMANITY OF EVANSVILLE, INC. AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended June 30, 2019 and 2018

### 1. **Organization and Summary of Significant Accounting Policies, Continued**

#### Promises to Give

Unconditional promises to give are recognized as revenues in the period received, net of an allowance for uncollectible amounts. Management utilizes the allowance method of accounting for uncollectible promises to give, based on historical collection experience and current economic conditions. Promises to give are recorded at net realizable value. Promises to give expected to be collected in more than one year are discounted to the present value of future cash flows using a 2.86% discount rate.

#### Mortgages Receivable & Allowance

Mortgages arise in connection with Habitat's home building initiatives. They are non-interest-bearing, secured by the home sold, and payable in monthly installments over the life of the mortgage, which is usually 25 to 30 years. Mortgages are discounted based on prevailing market rates for low income housing at the inception of mortgages, as provided by Habitat for Humanity International, Inc., and range from 7.39% to 8.48%. Discounts are amortized using the straight-line method over the term of the mortgages. Management believes that losses resulting from non-payment of mortgages receivable, given its collateral value and discount, are not likely. Accordingly, Habitat has not recorded an allowance for mortgage notes receivable losses. Homeowners whose mortgages are more than 60 days past due, who have not made satisfactory payment arrangements, and who have not attended required counseling sessions, may be subject to foreclosure proceedings.

#### Investment in Joint Venture

Habitat invested in joint ventures to take advantage of New Market Tax Credit (NMTC) financing. Habitat's investment in joint ventures is accounted for on the cost basis. Distributions received are reported as a return of the investment. Management has not identified any events or changes in circumstances that might have an adverse effect on value of the investment.

#### Property and Equipment

Property and equipment additions over \$500 are recorded at cost, or if donated, at fair value on the date of the donation. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets. If donors stipulate a time period during which the assets must be used, the contributions are recorded as support with donor restrictions. In the absence of such stipulations, contributions of property and equipment are recorded as support without donor restrictions. Habitat received \$55,000 of donated property for the year ended June 30, 2019 and none for the year ended June 30, 2018.

# HABITAT FOR HUMANITY OF EVANSVILLE, INC. AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended June 30, 2019 and 2018

### 1. **Organization and Summary of Significant Accounting Policies, Continued**

#### Debt Issuance Costs

Unamortized costs related to the issuance of long-term debt are amortized to interest expense over the term of the debt using the straight-line method. The unamortized amount is presented in the consolidated statement of financial position as a reduction of the debt.

#### Sales to Homeowners

Revenues are recognized when houses are completed and a signed mortgage is received by Habitat.

#### Sales Tax

The State of Indiana imposes a sales tax of 7% on the Habitat's ReStore sales to nonexempt customers. Habitat's accounting policy is to exclude the tax collected and remitted to the State from revenue and expenses.

#### Contributions

Contributions received are recorded as support with donor restrictions or support without donor restrictions, depending on the existence and nature of any donor restrictions. Contributions that are restricted by donors are reported as increases in net assets without donor restrictions if the restrictions expire in the same reporting period. All other restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When restrictions expire (that is, when a stipulated time restriction ends or a purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

#### Donated Materials and Services

Donated materials consist primarily of construction materials. Habitat recognized \$84,785 and \$65,813 in donated materials for the years ended June 30, 2019 and 2018, respectively.

Donated services are only recognized as contributions if they create or enhance a non-financial asset, require specialized skills, and would otherwise need to be purchased. Habitat recognized \$21,704 and \$7,345 in donated services for the years ended June 30, 2019 and 2018, respectively. A substantial number of volunteers have donated significant amounts of their time to Habitat, but the value of these services is not reflected in the financial statements, as it does not meet the criteria for recognition.

**HABITAT FOR HUMANITY OF EVANSVILLE, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Years Ended June 30, 2019 and 2018

**1. Organization and Summary of Significant Accounting Policies, Continued**

Advertising

Advertising costs are expensed as incurred.

Income Taxes

The Organization is exempt from income taxes as a nonprofit corporation under Section 501(c)(3) of the Internal Revenue Code, except on net income derived from unrelated business activities. The Organization believes that it has support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements.

Functional Allocation of Expenses

The costs of providing various services and activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on actual direct expenditures, time and effort, and square footage of facilities.

Use of Estimates

The preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

New Accounting Pronouncement

FASB issued ASU No. 2016-14, "Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities" in 2016. Under the ASU, the number of net asset classes is decreased from three to two; reporting of expenses by function and nature, as well as an analysis of expenses by both function and nature is required; and qualitative information in the notes to the financial statements on how an entity manages its liquid available resources and liquidity risks is required. The Organization adopted ASU 2016-14 during the year ended June 30, 2019. In accordance with the ASU, previously reported amounts have been reclassified to the current presentation. The adoption of ASU 2016-14 had no impact on the Organization's total net assets.

# HABITAT FOR HUMANITY OF EVANSVILLE, INC. AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended June 30, 2019 and 2018

### 1. Organization and Summary of Significant Accounting Policies, Continued

#### Reclassifications

Certain accounts in the 2018 consolidated financial statements have been reclassified for comparative purposes to conform with the presentation in the 2019 consolidated financial statements. These reclassifications had no effect on impact on previously reported net assets.

### 2. Liquidity and Availability of Financial Assets

Financial assets available for general operating expenditures, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date were as follows at June 30:

	<u>2019</u>	<u>2018</u>
Cash	\$ 597,853	\$ 390,088
Certificates of deposit	1,630,803	1,605,421
Promises to give	123,717	262,906
Mortgages receivable	<u>696,936</u>	<u>664,064</u>
	<u>\$ 3,049,309</u>	<u>\$ 2,922,479</u>

The Organization's goal is generally to maintain financial assets to meet at least 90 days of operating expenses. As part of its liquidity plan, the Organization invests cash in excess of daily requirements in short-term investments.

### 3. Promises to Give

Promises to give consisted of the following at June 30:

	<u>2019</u>	<u>2018</u>
Receivable in less than one year	\$ 366,486	\$ 262,906
Receivable in one to five years	<u>266,848</u>	<u>109,678</u>
Total promises to give	633,334	372,584
Less discount to net present value	<u>(14,695)</u>	<u>(14,223)</u>
Promises to give, net	<u>\$ 618,639</u>	<u>\$ 358,361</u>

# HABITAT FOR HUMANITY OF EVANSVILLE, INC. AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended June 30, 2019 and 2018

### 4. Mortgages Receivable

Mortgages receivable consisted of the following at June 30:

	<u>2019</u>	<u>2018</u>
Mortgages receivable – current	\$ 696,936	\$ 664,064
Mortgages receivable – long-term	<u>10,087,717</u>	<u>9,246,392</u>
Total mortgages receivable	10,784,653	9,910,456
Less discount to net present value	<u>(5,890,866)</u>	<u>(5,429,867)</u>
Mortgages receivable, net	<u>\$ 4,893,787</u>	<u>\$ 4,480,589</u>

### 5. Investment in Joint Venture

Habitat participated in two New Market Tax Credit (NMTC) programs. The programs provide tax credits over a seven year period to eligible investors for making a qualified low-income community investment. Program compliance requirements include creation of a promissory note and investment in a qualified community development entity (CDE).

In 2017, Habitat invested \$977,844 in a joint venture, HFHI NMTC Leverage Lender 2016-1, LLC, for a 10.5% ownership interest and secured a 30-year loan in the amount of \$1,450,557 payable to an affiliate of the joint venture (see Note 8). The loan proceeds are to be used solely for the purpose of constructing qualified homes to low-income residents. Remaining investment in the joint venture was \$961,571 and \$971,351 at June 30, 2019 and 2018, respectively.

In 2011, Habitat invested \$2,386,637 in a joint venture, HFHI-SA Leverage VIII, LLC. Habitat, for a 25.7% ownership interest and secured a 15-year loan in the amount of \$3,143,108 payable to an affiliate of the joint venture. In March 2018, a put option was exercised on the loan which extinguished Habitat's ownership in the joint venture, with a remaining cost of \$2,219,185, and the outstanding debt, resulting in a gain on extinguishment of debt for \$923,923 for the year ended June 30, 2018.

### 6. Beneficial Interest in Assets Held by Others and Fair Value

Habitat contributed donor-restricted funds to the Community Foundation Alliance (CFA) and specified itself as the beneficiary. CFA was granted variance power to modify any restriction or condition of the distribution of the funds for any specified charitable purposes or to specified organizations if such restriction becomes unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the community and area served.

# HABITAT FOR HUMANITY OF EVANSVILLE, INC. AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended June 30, 2019 and 2018

### 6. Beneficial Interest in Assets Held by Others and Fair Value, Continued

Income from these funds is distributed to Habitat for unrestricted purposes and the principal must remain intact for perpetuity. The historical cost of the beneficial interest was \$44,665 and \$36,175 at June 30, 2019 and 2018, respectively.

The fair value of the beneficial interest in assets held by others is measured on a recurring basis using the unadjusted fair value of the assets held in the fund as reported by CFA. Habitat considers the measurement to be a Level 3 input (based on significant unobservable inputs) because Habitat will never receive those assets or have the ability to direct CFA to redeem them.

The table below presents information about the fair value measurements of the beneficial interest in assets held by others for the years ended June 30:

	<u>2019</u>	<u>2018</u>
Beginning of year	\$ 39,553	\$ 35,539
Transfer of assets to community foundation	8,490	2,075
Total gains recognized in the change in net assets with donor restrictions	<u>1,336</u>	<u>1,939</u>
End of year	<u>\$ 49,379</u>	<u>\$ 39,553</u>

### 7. Property and Equipment

Property and equipment consisted of the following at June 30:

	<u>2019</u>	<u>2018</u>
Equipment	\$ 147,058	\$ 139,760
Vehicles	70,862	28,357
Leasehold improvements	<u>78,850</u>	<u>78,850</u>
	296,770	246,967
Accumulated depreciation	<u>(134,552)</u>	<u>(112,243)</u>
Property and equipment, net	<u>\$ 162,218</u>	<u>\$ 134,724</u>

**HABITAT FOR HUMANITY OF EVANSVILLE, INC. AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Years Ended June 30, 2019 and 2018

**8. Long-Term Debt**

Long term debt at June 30, 2019 and 2018 consisted of a \$1,450,557 note payable to HFHI NMTC Sub-CDE II, LLC, an affiliate of the joint venture discussed in Note 5, in conjunction with Habitat's participation in NMTC. This note requires interest only payments until November 2024 at 0.674252% and matures November 2047. The loan is secured by substantially all the assets acquired by Habitat from the project loan proceeds. The loan has a put option exercisable in November 2024 that will enable the joint venture to become owner of the affiliate, which will effectively extinguish Habitat's ownership in the joint venture and the outstanding debt owed to the affiliate. Unamortized debt issuance costs were \$76,346 and \$79,039 at June 30, 2019 and 2018, respectively.

**9. Net Assets with Donor Restrictions**

Net assets with donor restrictions consisted of the following at June 30:

	<u>2019</u>	<u>2018</u>
Passage of time:		
Contributions receivable	\$ 125,870	\$ 358,361
Passage of time and specific purpose:		
Building of homes	492,769	-
Specific purpose:		
Learning center	11,566	15,772
Net assets to be maintained in perpetuity:		
Beneficial interest in assets held by others	<u>49,379</u>	<u>39,553</u>
	<u>\$ 679,584</u>	<u>\$ 413,686</u>

Net assets released from restrictions were as follows for the years ended June 30:

	<u>2019</u>	<u>2018</u>
Passage of time	\$ 252,609	\$ 625,760
Satisfaction of program restrictions:		
Learning center	<u>4,206</u>	<u>4,206</u>
	<u>\$ 256,815</u>	<u>\$ 629,966</u>



# HABITAT FOR HUMANITY OF EVANSVILLE, INC. AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended June 30, 2019 and 2018

### 10. Leases

Habitat leases office and warehouse space under noncancelable operating lease agreements which expire at various dates through March 2022. These leases generally contain renewal options for periods ranging from three to five years and require Habitat to pay all executory costs such as taxes, maintenance, and insurance. Total rent expense was \$136,838 and \$117,516 for the years ended June 30, 2019 and 2018, respectively.

Future minimum lease payments under operating leases that have remaining terms in excess of one year are as follows for the years ended June 30:

2020	133,211
2021	61,285
2022	31,267
	<u>225,763</u>
	<u>\$ 225,763</u>

### 11. Retirement Plan

Habitat maintains a Simple IRA defined contribution plan covering substantially all of its employees. Habitat matches employee contributions up to 3% of eligible wages. Plan contributions were \$16,697 and \$14,906 for the years ended June 30, 2019 and 2018.

### 12. ReStore Income, Net

ReStore income is summarized as follows for the years ended June 30:

	<u>2019</u>	<u>2018</u>
Donations to ReStore	\$ 572,492	\$ 485,555
Sales of donated items	467,514	382,207
Fair market value of donated items sold	<u>(571,000)</u>	<u>(455,667)</u>
ReStore income, net	<u>\$ 469,006</u>	<u>\$ 412,095</u>

### 13. Transactions with Affiliate

Habitat remits a portion of its contributions to HFHI annually. These funds are used to construct homes in economically depressed areas around the world. Habitat contributed \$59,400 and \$56,700 to HFHI for the years ended June 30, 2019 and 2018, respectively. In addition, Habitat paid HFHI \$7,500 for operational support for each of the years ended June 30, 2019 and 2018.

# HABITAT FOR HUMANITY OF EVANSVILLE, INC. AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended June 30, 2019 and 2018

### 14. Concentrations of Credit Risk

Financial instruments that potentially subject Habitat to credit risk consist principally of cash on deposit at financial institutions, promises to give, and mortgages receivable. Cash in banks may, at times, exceed federal deposit insurance limits. Habitat attempts to minimize this risk by using high-credit quality financial institutions. Promises to give, which represent unsecured support, are periodically reviewed by management for their collectability and an allowance for doubtful accounts is established, as deemed necessary. Mortgages receivable are secured by the property purchased.

### 15. Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606), requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. The amendments of this ASU will be effective for annual reporting periods beginning after December 15, 2018.

In February 2016, FASB issued ASU 2016-02, *Leases* (Topic 842). This ASU will increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. Under ASU 2016-02, a lessee will recognize in the statement of financial position a liability to make lease payments and a right-to-use asset representing its right to use the underlying asset for the lease term for all leases with a lease term of more than 12 months. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee have not significantly changed from current GAAP. The amendments of this ASU are effective for reporting periods beginning after December 15, 2019, with early adoption permitted. An entity will be required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach.

Management is currently assessing the impact the adoption of these ASUs will have on its financial statements.

### 16. Subsequent Events

The Organization has evaluated subsequent events through September 24, 2019, the date the consolidated financial statements were available to be issued.