Habitat for Humanity Saint Louis and Affiliates

Combined Financial Statements
and Independent Auditor's Report

December 31, 2019 and 2018

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Habitat for Humanity Saint Louis and Affiliates

Index

Independent Auditor's Report

To the Board of Directors
Habitat for Humanity Saint Louis and Affiliates
St. Louis, MO

We have audited the accompanying combined financial statements of Habitat for Humanity Saint Louis and its affiliates, which comprise the combined statements of financial position as of December 31, 2019 and 2018, and the related combined statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of these combined 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 combined 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 combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined 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 combined financial statements referred to above present fairly, in all material respects, the financial position of Habitat for Humanity Saint Louis and its affiliates as of December 31, 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.

CohnReznick LLP

Chicago, Illinois
November 19, 2020

Habitat for Humanity Saint Louis and Affiliates

Combined Statements of Financial Position
December 31, 2019 and 2018

Assets

	2019	2018
Current assets		
Cash and cash equivalents	$ 136,672	$ 92,167
Restricted cash	47,066	59,344
Pledges receivable	56,425	51,004
Grants receivable	8,400	37,819
Other receivables, net	262,920	168,732
Home construction and inventory	1,005,955	1,419,474
ReStore inventory	312,551	330,606
Prepaid expenses and other assets	11,567	212,643
Total current assets	1,841,556	2,371,789
Fixed assets		
Property and equipment, net	3,864,079	3,899,813
Total fixed assets	3,864,079	3,899,813
Long-term assets		
Mortgages receivable, net	1,503,051	1,800,693
Investments in new markets tax credit programs	1,260,552	2,752,395
Capitalized costs, net	88,334	111,303
Total long-term assets	2,851,937	4,664,391
Total assets	$ 8,557,572	$ 10,935,993

Habitat for Humanity Saint Louis and Affiliates

Combined Statements of Financial Position
December 31, 2019 and 2018

Liabilities and Net Assets

	2019	2018
Current liabilities		
Lines of credit	$ 1,000,433	$ 1,748,437
Current portion of long-term debt	68,200	24,781
Accounts payable and accrued expenses	1,412,698	1,067,998
Deferred revenue	382,155	354,212
Total current liabilities	2,863,486	3,195,428
Deposits liability		
Mortgage escrows	360,302	338,551
Long-term liabilities		
Long-term debt	4,091,206	6,001,944
Total liabilities	7,314,994	9,535,923
Commitments and contingencies		
Net assets		
Without donor restrictions	1,180,113	1,337,605
With donor restrictions	62,465	62,465
Total net assets	1,242,578	1,400,070
Total liabilities and net assets	$ 8,557,572	$ 10,935,993

See Notes to Combined Financial Statements.

Habitat for Humanity Saint Louis and Affiliates

Combined Statement of Activities
Year Ended December 31, 2019

	Without donor restrictions	With donor restrictions	Total
Operating support and revenue			
Contributions and sponsorships	$ 1,844,353	$ 81,000	$ 1,925,353
Grants	399,495	-	399,495
Sales to homeowners	1,496,000	-	1,496,000
ReStore retail sales	1,214,822	-	1,214,822
Donated property, materials and services	1,192,847	119,437	1,312,284
Fundraising and special events revenue (net of expenses of $3,259)	1,807	28,653	30,460
Investment income			
Other income	250,972	-	250,972
Net assets released from restrictions	229,090	(229,090)	-
Total operating support and revenue	6,629,386	-	6,629,386
Operating expenses			
Program services:			
Home construction and construction support	3,717,872	-	3,717,872
ReStore retail operations	2,451,406	-	2,451,406
Total program services	6,169,278	-	6,169,278
Supporting activities:			
Management and general	748,329	-	748,329
Fundraising	321,560	-	321,560
Total supporting activities	1,069,889	-	1,069,889
Total operating expenses	7,239,167	-	7,239,167
Other revenue			
Debt forgiveness income	431,133	-	431,133
Net investment return	21,156	-	21,156
Total other revenue	452,289	-	452,289
Change in net assets	(157,492)	-	(157,492)
Net assets - beginning of year	1,337,605	62,465	1,400,070
Net assets - end of year	$ 1,180,113	$ 62,465	$ 1,242,578

See Notes to Combined Financial Statements.

Habitat for Humanity Saint Louis and Affiliates

Combined Statements of Activities
Year Ended December 31, 2018

	Without donor restrictions	With donor restrictions	Total
Operating support and revenue			
Contributions and sponsorships	$ 1,752,271	$ 98,650	$ 1,850,921
Grants	118,960	-	118,960
Sales to homeowners	974,000	-	974,000
ReStore retail sales	1,249,355	-	1,249,355
Donated property, materials and services	1,308,175	461,544	1,769,719
Fundraising and special events revenue (net of expenses of $5,861)	54,124	760	54,884
Investment income			
Other income	374,873	-	374,873
Net assets released from restrictions	567,814	(567,814)	-
Total operating support and revenue	6,399,572	(6,860)	6,392,712
Operating expenses			
Program services:			
Home construction and construction support	3,224,515	-	3,224,515
ReStore retail operations	2,594,225	-	2,594,225
Total program services	5,818,740	-	5,818,740
Supporting activities:			
Management and general	727,102	-	727,102
Fundraising	353,024	-	353,024
Total supporting activities	1,080,126	-	1,080,126
Total operating expenses	6,898,866	-	6,898,866
Other revenue			
Debt forgiveness income	1,107,707	-	1,107,707
Net investment return	54,602	-	54,602
Total other revenue	1,162,309	-	1,162,309
Change in net assets	663,015	(6,860)	656,155
Net assets - beginning of year	674,590	69,325	743,915
Net assets - end of year	$ 1,337,605	$ 62,465	$ 1,400,070

See Notes to Combined Financial Statements.

Habitat for Humanity Saint Louis and Affiliates

Combined Statement of Functional Expenses
Year Ended December 31, 2019

	Program services			Supporting activities			
	Construction	ReStore operations	Total	Management and general	Fundraising	Total	Total
Salaries and wages	$ 809,877	$ 484,334	$ 1,294,211	$ 271,831	$ 215,867	$ 487,698	$ 1,781,909
Employee taxes and benefits	207,771	126,351	334,122	65,241	40,775	106,016	440,138
Home construction costs	1,924,786	272	1,925,058	6,586	-	6,586	1,931,644
Discount on mortgages	217,441	-	217,441	-	-	-	217,441
Impairment on inventory	37,145	-	37,145	-	-	-	37,145
Cost of merchandise sales	-	1,210,903	1,210,903	-	-	-	1,210,903
New Market Tax Credit expenses	14,210	-	14,210	-	-	-	14,210
Bad debt	409	-	409	53,000	8,500	61,500	61,909
Committee expenses	4,997	-	4,997	5,165	707	5,872	10,869
Computer expenses	2,324	3,135	5,459	14,367	429	14,796	20,255
Depreciation and amortization	100,253	64,479	164,732	14,697	-	14,697	179,429
Facilities cost	6,699	491,082	497,781	49,808	-	49,808	547,589
Insurance	18,421	820	19,241	31,306	-	31,306	50,547
Interest expense and service charges	205,802	17,744	223,546	44,072	17	44,089	267,635
Marketing and public relations	40,836	1,565	42,401	439	34,261	34,700	77,101
Miscellaneous	26,711	2,540	29,251	6,960	482	7,442	36,693
Office expenses	20,158	15,565	35,723	18,738	15,170	33,908	69,631
Postage	546	416	962	1,411	613	2,024	2,986
Professional fees	52,285	-	52,285	161,256	-	161,256	213,541
Telephone	12,470	6,788	19,258	2,635	2,005	4,640	23,898
Travel and meals	1,995	-	1,995	-	-	-	1,995
Vehicle	12,736	25,412	38,148	817	2,734	3,551	41,699
	$ 3,717,872	$ 2,451,406	$ 6,169,278	$ 748,329	$ 321,560	$ 1,069,889	$ 7,239,167

See Notes to Combined Financial Statements.

Habitat for Humanity Saint Louis and Affiliates

Combined Statement of Functional Expenses
Year Ended December 31, 2018

	Program services			Supporting activities			
	Construction	ReStore operations	Total	Management and general	Fundraising	Total	Total
Salaries and wages	$ 826,993	$ 555,942	$ 1,382,935	$ 260,342	$ 226,678	$ 487,020	$ 1,869,955
Employee taxes and benefits	226,352	131,841	358,193	59,375	44,283	103,658	461,851
Home construction costs	1,195,739	-	1,195,739	595	-	595	1,196,334
Discount on mortgages	201,903	-	201,903	-	-	-	201,903
Impairment on inventory	23,951	-	23,951	-	-	-	23,951
Cost of merchandise sales	-	1,248,904	1,248,904	-	-	-	1,248,904
New Market Tax Credit expenses	65,655	-	65,655	-	-	-	65,655
Bad debt	25,499	-	25,499	-	-	-	25,499
Committee expenses	3,818	87	3,905	9,196	642	9,838	13,743
Computer expenses	3,545	4,356	7,901	13,627	648	14,275	22,176
Depreciation and amortization	197,470	45,098	242,568	8,443	-	8,443	251,011
Facilities cost	21,788	508,060	529,848	118,281	3,250	121,531	651,379
Insurance	14,707	834	15,541	34,879	-	34,879	50,420
Interest expense and service charges	226,391	19,858	246,249	36,485	5,254	41,739	287,988
Marketing and public relations	80,958	8,078	89,036	3,791	41,945	45,736	134,772
Miscellaneous	33,910	9,026	42,936	9,951	8,509	18,460	61,396
Office expenses	20,707	20,518	41,225	18,949	15,922	34,871	76,096
Postage	698	20	718	989	746	1,735	2,453
Professional fees	25,000	-	25,000	145,651	-	145,651	170,651
Telephone	12,240	7,991	20,231	3,831	2,195	6,026	26,257
Travel and meals	606	228	834	-	-	-	834
Vehicle	16,585	33,384	49,969	2,717	2,952	5,669	55,638
	$ 3,224,515	$ 2,594,225	$ 5,818,740	$ 727,102	$ 353,024	$ 1,080,126	$ 6,898,866

See Notes to Combined Financial Statements.

Habitat for Humanity Saint Louis and Affiliates

Combined Statements of Cash Flows
Years Ended December 31, 2019 and 2018

	2019	2018
Cash flows from operating activities		
Contribution and sponsorship receipts	$ 1,770,333	$ 1,764,771
Grant receipts	456,857	316,207
Sales to homeowners receipts	1,665,559	1,007,832
ReStore retail receipts	1,232,877	1,249,611
Net fundraising and special events receipts	30,460	54,884
Investment receipts	21,156	54,602
Other operating receipts	174,375	300,522
Total receipts	5,351,617	4,748,429
Salaries and wages paid	(2,009,569)	(2,127,010)
Home construction costs paid	(1,287,491)	(677,015)
Cost of merchandise sales	(18,056)	(146)
New markets tax credit transaction costs paid	(14,210)	(65,655)
Committee expenses paid	(10,869)	(13,743)
Computer expenses paid	(20,255)	(22,176)
Facilities expenses paid	(376,139)	(828,427)
Insurance paid	(27,236)	(35,793)
Interest expense and service charges paid	(271,925)	(286,113)
Marketing and PR expenses paid	(77,101)	(134,772)
Administrative expenses paid	(192,085)	(209,199)
Professional fees paid	(213,541)	(170,651)
Total disbursements	(4,518,477)	(4,570,700)
Net cash provided by operating activities	833,140	177,729

Habitat for Humanity Saint Louis and Affiliates

Combined Statements of Cash Flows
Years Ended December 31, 2019 and 2018

	2019	2018
Cash flows from investing activities		
Proceeds from sale of investments	-	4,839
Purchases of property and equipment	(65,590)	(2,529,828)
Net cash used in investing activities	(65,590)	(2,524,989)
Cash flows from financing activities		
Payments on lines of credit, net	(748,004)	(4,633)
Proceeds from long-term debt	37,505	147,996
Principal payments on long-term debt	(24,824)	(13,500)
Net cash (used in) provided by financing activities	(735,323)	129,863
Net increase (decrease) in cash, cash equivalents, and restricted cash	32,227	(2,217,397)
Cash, cash equivalents, and restricted cash, beginning	151,511	2,368,908
Cash, cash equivalents, and restricted cash, end	$ 183,738	$ 151,511
Significant noncash investing and financing activities		
Purchases of property and equipment	$ (12,160)	$ -
Accounts payable and accrued expenses	12,160	-
Investment in NMTC	1,448,867	4,772,293
Loan payable (NMTC)	(1,880,000)	(5,880,000)
Debt forgiveness (NMTC)	431,133	1,107,707
	$ -	$ -

Habitat for Humanity Saint Louis and Affiliates

Combined Statements of Cash Flows
Years Ended December 31, 2019 and 2018

	2019	2018
Reconciliation of change in net assets to net cash provided by operating activities		
Change in net assets	$ (157,492)	$ 656,155
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Discount on home construction and inventory	37,145	23,951
Discount on mortgages receivable	217,441	201,903
Donated property, materials and services	17,985	(56,917)
Bad debt	61,909	25,499
Depreciation and amortization	179,429	251,011
Debt forgiveness	(431,133)	(1,107,707)
Changes in assets and liabilities		
Pledges receivable, net	(67,330)	(1,479)
Grants receivable, net	29,419	28,681
Other receivables, net	(94,188)	(110,170)
ReStore inventory	70	256
Home construction and inventory	376,374	148,489
Prepaid expenses	201,076	(163,946)
Mortgages receivable	80,201	(285,082)
Accounts payable and accrued expenses	332,540	362,126
Mortgage escrows	21,751	10,894
Deferred revenue	27,943	194,065
Net cash provided by operating activities	$ 833,140	$ 177,729

See Notes to Combined Financial Statements.

Note 1 - Organization

Habitat for Humanity Saint Louis ("Habitat") was organized as a non-profit organization in the state of Missouri and is associated with Habitat for Humanity International, Inc. Habitat has received tax exempt status under the provisions of Section 501(c)(3) of the Internal Revenue Code of 1954 to construct affordable, decent housing for sale to low-income families at cost and to build communities by encouraging existing homeowners to upgrade and improve their property.

On July 10, 2014, HFHSL Community Housing Development Organization ("HFHSL CHDO") and on January 27, 2015, HFHSL Community Housing Development Corporation II ("HFHSL CHDC II"), were formed in the State of Missouri.

HFHSL CHDO and HFHSL CHDC II are Community Housing Development Organizations ("CHDO's") sanctioned by the U.S. Department of Housing and Urban Development's ("HUD") HOME Program, whose purpose is to assist in developing community low-income housing. CHDO's receive certain priority and eligibility for HUD grants.

These combined financial statements include the accounts of Habitat for Humanity Saint Louis, HFHSL Community Housing Development Organization, and HFHSL Community Housing Development Corporation II (collectively, the "Organization"). Inter-company activity is eliminated in combination.

The primary source of the Organization's revenues is contributions and sponsorships received from the general public, corporations, and religious organizations. Habitat also operates two retail hardware stores (the "ReStores") with sales to the general public. Inventory is primarily donated, with the sale proceeds used to carry out the Organization's mission.

The Organization's activities are primarily comprised of the following:

Program services
Home construction, financing and support - Includes all home construction costs such as materials, supplies, labor and overhead, as well as financing certain mortgages for the homeowners. This programming also includes construction supporting costs such as real estate development, volunteer mobilization and family selection services.

ReStore operations - Includes salaries, utilities, and overhead necessary to operate two discount and recycled materials hardware stores. This programming also includes the estimated value of donated merchandise sold in the stores.

Supporting activities
Management and general - Includes the functions necessary to maintain an equitable employment program; ensure an adequate working environment; provide coordination and articulation of the Organization's program strategy; secure proper administrative functioning of the Board of Directors; and manage the combined financial and budgetary responsibilities of the Organization.

Fundraising - Provides the structure necessary to encourage and secure combined financial support for the Organization through grants, contributions, and special events.

Note 2 - Summary of significant accounting policies

Basis of presentation

The Organization is required to report information regarding its combined financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions. Additionally, information is required to segregate program service expenses from support expenses. Support expenses include management and general and fundraising expenses.

Revenue recognition

Contributions and grants received are recorded as without donor restrictions or with donor restrictions support, depending on the existence and/or nature of any donor restrictions. Contributions of assets other than cash are recorded at their estimated fair market value.

Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions received with donor-imposed restrictions that are met in the same year as received are reported as unrestricted revenues. The expiration of temporary restrictions on net assets (i.e., the donor imposed stipulated purpose has been fulfilled, or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

Unconditional pledges receivable that are expected to be collected within a year are recorded at their net realizable value when the donor makes the promise. Unconditional pledges receivable that are expected to be collected in the future years are recorded at the present value of their estimated future cash flows.

Grants that are received prior to recognition of revenue are recorded as deferred revenue.

Sales to homeowners represent the sale of homes built or rehabilitated by the Organization. The resulting mortgages are noninterest-bearing and have been discounted based upon prevailing market rates for low-income housing at the inception of the mortgages. The Organization recognizes income from the sales to homeowners on the completed contract method when home closings occur.

Donated property, materials and services

Donated materials are valued at the lower of estimated donor cost or fair value at the date of contribution. Certain professional services are donated to the Organization by various organizations. Since these donated services meet the criteria for recognition, as stated by generally accepted accounting principles, they are recorded at fair value at the date of donation. In addition, a substantial number of volunteers have donated a significant amount of time to the Organization. These donated services have not been recognized as contributions in the combined financial statements since the recognition criteria, as stated by generally accepted accounting principles, were not met. Some donated materials and services are designated by the donor for specific construction projects, and accordingly, are recorded as with donor restrictions.

Donated investments are recorded at the fair market value as of the date of the contribution. Gains and losses on investments and other assets or liabilities, are reported as increases or decreases in unrestricted net assets, unless their use is restricted by explicit donor stipulation or by law.

Net assets

The Organization classifies net assets as without donor restrictions and with donor restrictions.

Without donor restrictions net assets of the Organization are neither permanently restricted nor temporarily restricted by donor-imposed stipulations.

With donor restrictions net assets of the Organization result (a) from contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that neither or either expire by passage of time or can be fulfilled and removed by actions of the Organization pursuant to those stipulations, (b) from other asset enhancements and diminishments subject to the same kinds of stipulations and (c) from reclassifications to (or from) other classes of net assets as a consequence of donor-imposed stipulations, their expiration by passage of time, or their fulfillment and removal by actions of the Organization pursuant to those stipulations.

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

Investments
The Organization's long-term investments are investments in entities related to the New Markets Tax Credit ("NMTC") program. The NMTC investments are accounted for using the equity method. Under the equity method, the initial investment is recorded at cost and is subsequently increased or decreased by its share of income or loss and increased or decreased by the amount of any contributions made or distributions received. All investment activity is reflected in the accompanying combined statements of activities as net investment return.

Cash and cash equivalents
The Organization considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Inventory
Inventory primarily consists of ReStore merchandise, construction in progress, homes available for sale, and land and buildings occupied and subject to lease with the option to purchase.

ReStore inventory consists of materials and is stated at donated value. Any purchased inventory is stated at the lower of cost or market value.

All direct material and equipment costs and indirect costs related to home construction are recorded as construction in progress inventory. When revenue from the sale of a home is recognized, the corresponding costs are expensed in the combined statement of activities and changes in net assets as program services.

Homes are transferred from construction in progress to homes available for sale once completed, with the accrued impairment for the sale of the mortgage and the expected loss on the sale of the property. Homes available for sale also includes foreclosed homes mortgage balances which are recorded at the unpaid mortgage balance at the time of foreclosure.

Mortgages receivable
Mortgages receivable consist of noninterest bearing notes received from homebuyers in connection with the sale of homes constructed by the Organization. The notes are discounted to their present

values using various interest rates at the time of closing. The discount is amortized over the lives of the mortgages using the effective interest method. An allowance for estimated doubtful accounts has been setup based on past collection experience of homeowners.

Assets held for sale
Long-lived assets to be sold are classified as "held for sale" in the period in which certain criteria are met such as the estimated timeframe in which the assets are expected to be sold. As a result, depreciation is not recorded on an asset once deemed to be held for sale, and it is recorded in the financial statements at the lower of its carrying value or fair value less cost to sell.

Capitalization and depreciation
Property and equipment are recorded at cost. Improvements are capitalized, while expenditures for maintenance and repairs are charged to expense as incurred. Upon disposal of depreciable property, the appropriate property accounts are reduced by the related costs and accumulated depreciation. Assets are depreciated over their estimated service lives. The estimated service lives of the assets for depreciation purposes may be different than their actual economic useful lives.

Construction in progress
Costs incurred for construction in progress are capitalized when incurred. If at any time management determines that the costs incurred would no longer provide a future benefit to the Organization, the costs are expensed in the period in which the determination is made.

Capitalized costs
Guarantee fees paid in conjunction with the NMTC investments are capitalized and amortized over seven years, the NMTC guarantee period.

Impairment of long-lived assets
The Organization reviews its property for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If the fair value is less than the carrying amount of the asset, an impairment loss is recognized for the difference. No impairment losses have been recognized during 2019 and 2018, respectively.

Income taxes
Habitat has applied for and received a determination letter from the Internal Revenue Service ("IRS") to be treated as a tax exempt entity pursuant to Section 501(c)(3) of the Internal Revenue Code and did not have any unrelated business income for the years ended December 31, 2019 and 2018. Due to its tax-exempt status, Habitat is not subject to income taxes. They are required to file, and do file, tax returns with the IRS and other taxing authorities. The Forms 990, Return of Organization Exempt from Income Tax, are subject to examination by the IRS generally for three years after they were filed.

Advertising costs
Advertising costs are charged to operations when incurred.

Functional expenses
The costs of providing program and other activities have been summarized on a functional basis in the statements of functional expenses. Included in each functional category are the expenses directly attributable to that functional area plus certain indirect or shared costs that have been allocated to the area. Expenses are allocated based on program, management and general, and resource development, with ReStore expenses being separately netted. Program expenses are defined as all costs related to the construction of homes, including hard and soft costs of a

development, as well as all construction overhead expenses (staff salaries and benefits, and operating expenses related to construction). Program expenses also include the costs of mobilizing the volunteers used in the construction of homes, as well as the cost to select and educate partner families.

Recently adopted accounting pronouncements
Accounting Standards Update 2014-09
The Financial Accounting Standards Board ("FASB") issued Accounting Standards Update 2014-09, *Revenue from Contracts with Customers (Topic 606)* ("ASU 2014-09") in May 2014, providing new revenue recognition guidance that superseded existing revenue recognition guidance. The update, as amended, requires the recognition of revenue related to the transfer of goods or services to customers reflects the consideration to which the entity expects to be entitled in exchange for those goods or services, as well as additional qualitative and quantitative disclosures about revenues. ASU 2014-09 is effective for fiscal years beginning after December 15, 2018 with early adoption permitted. The Organization has elected to defer ASU 2014-09 as stated in the ASU below.

Accounting Standards Update 2020-05
In June 2020, the FASB issued Accounting Standards Update No. 2020-05 ("ASU 2020-05"), *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842): Effective Dates for Certain Entities*, which provides for the elective deferrals of the effective date of Topic 606 and Topic 842 for certain entities.

The Organization has elected to apply the deferral provided by ASU 2020-05 and therefore expects to adopt Topic 606 for annual reporting periods beginning December 15, 2019 retrospectively with a cumulative effect transition adjustment to opening net assets as of the beginning of the period that includes initial adoption of the standard. The Organization also elects to defer Topic 842 to fiscal years beginning after December 15, 2021 on a modified retrospective basis. The Organization is currently evaluating the potential impacts of adopting Topic 606 and Topic 842 on its combined financial statements.

Accounting Standards Update 2016-18
In November 2016, the FASB issued Accounting Standards Update 2016-18, *Statement of Cash Flows (Topic 230) – Restricted Cash* ("ASU 2016-18") to address diversity in practice with respect to the cash flow presentation of changes in amounts described as restricted cash and cash equivalents. ASU 2016-18 requires a reporting entity to include amounts described as either restricted cash or restricted cash and cash equivalents (collectively referred to as "restricted cash" herein) when reconciling beginning and ending balances in its statement of cash flows. The update also amends Topic 230 to require disclosures about the nature of restricted cash and provide a reconciliation of cash, cash equivalents and restricted cash between the combined statement of financial position and the statement of cash flows. ASU 2016-18 was adopted retrospectively during the year ended December 31, 2019, however, there were no changes to the beginning and ending cash and restricted for 2018 and 2017.

Accounting Standards Update 2016-02
In February 2016, the FASB issued Accounting Standard Update No. 2016-02, *Leases (Topic 842)* ("ASU 2016-02"), which requires lessees to recognize on the balance sheet the assets and liabilities for the rights and obligations created by leases with lease terms of more than 12 months. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee will continue to primarily depend on its classification as a finance or operating lease.

However, unlike current U.S. GAAP, which requires only capital leases to be recognized on the balance sheet, ASU 2016-02 will require both types of leases to be recognized on the balance sheet. ASU 2016-02 also requires disclosures about the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include qualitative and quantitative requirements, providing additional information about the amounts recorded in the financial statements. As part of the election to defer the standard, ASU 2016-02 is effective for fiscal years beginning after December 15, 2021 with early adoption permitted. The Organization is currently evaluating the effect the updated standard will have on its combined financial statements.

Accounting Standards Update 2018-08
In June 2018, the FASB issued Accounting Standards Update 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* ("ASU 2018-08"). This standard assists entities in evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional. The Organization has implemented the provisions of ASU 2018-08 applicable to both contributions received and to contributions made in the accompanying financial statements under a modified prospective basis. Accordingly, there is no effect on net assets in connection with the implementation of ASU 2018-08.

Note 3 - Availability and liquidity

The following represents the Organization's financial assets at December 31, 2019 and 2018:

	2019	2018
Financial assets at year end		
Cash and cash equivalents	$ 136,672	$ 92,167
Restricted cash	47,066	59,344
Contributions receivable	64,825	88,823
Total financial assets	248,563	240,334
Less amounts not available to be used within one year		
Net assets with donor restrictions	62,465	62,465
Financial assets not available to be used within one year	62,465	62,465
Financial assets available to meet general expenditures within one year	$ 186,098	$ 177,869

Liquidity management
The Organization maintains a policy of structuring its financial assets to be available as its general expenditures, construction expenditures, liabilities and other obligations become due. The Organization utilizes project specific construction lines of credit to manage hard and soft construction expenses, as well as certain organization expenses as related directly to the construction program. These lines exist solely during the specific construction period and are paid in full upon the origination of a repayable mortgage on the sale of each home.

To help manage unanticipated liquidity needs, the Organization utilizes short term (on a daily basis) cash flow analysis and projection report. The Organization also utilizes a long-term cash flow analysis that operates as a trended profit and loss report which uses the annual budget as a basis, but is updated in real time to reflect actual revenue and expenses. This allows for the projection of the availability of cash surplus and thus enhanced planning and budgeting for times of unexpected liquidity needs.

Additionally, the Organization has a proven track record of applying for and receiving grants and tax credit allocations that have been utilized to cover any gaps in revenue versus expense, as well as to actually fund ongoing operational expenses.

Note 4 - Cash and cash equivalents

The Organization maintains its cash reserve balances in several accounts. The cash reserve balances are insured by the Federal Deposit Insurance Corporation. At times, these balances may exceed the federal insurance limits; however, the Organization has not experienced any losses with respect to its bank balances in excess of government provided insurance. Management believes that no significant concentration of credit risk exists with respect to these cash reserve balances during the years ended December 31, 2019 and 2018.

Restricted cash consists of the following as of December 31, 2019 and 2018:

	2019	2018
Homeowner repair escrow	$ 8,188	$ 2,724
Restricted for NMTC expenses (Note 11)	38,878	56,620
	$ 47,066	$ 59,344

Note 5 - Project fund

In accordance with the Financing Agreement dated December 1, 2017 (the "Financing Agreement"), proceeds from the Series 2017 Revenue Bonds (see Note 15) are required to be deposited with Royal Bank of Missouri, the fiscal agent. The project fund is to be used to pay for the rehabilitation costs of the Organization's new administrative office building at 3830 South Grand Boulevard. During 2018, the funds were used towards the construction of the new office building.

Note 6 - Investments

Certain investments have been designated by the Board for specific purposes (see Note 16). Income on those investments includes the following for the years ended December 31, 2019 and 2018:

	2019	2018
Investment income from NMTC investments	$ 20,487	$ 53,850
Interest and dividend income	1,023	752
Realized (loss)/gain on investments	(354)	-
	$ 21,156	$ 54,602

Note 7 - Pledges receivable

Pledges, or promises to give, consist of contributions restricted for the purpose of building a home. At December 31, 2019 and 2018, pledges receivable for house sponsorships totaled $56,425 and $51,004, respectively. The promises to give are unconditional and are expected to be collected within one year.

Note 8 - Grants receivable and grant revenue

Grants receivable as of December 31, 2019 and 2018 consists primarily of reimbursement type grants for home construction costs:

	2019	2018
City of St. Louis HOME Funds	$ 3,900	$ -
Jefferson Solid Waste	4,500	37,819
	$ 8,400	$ 37,819

Grant revenue earned during 2019 and 2018 consists of the following:

	2019	2018
Affordable Housing Trust Fund	$ 126,000	$ -
City of St. Louis CDBG Funds	14,995	49,960
City of St. Louis HOME Funds	85,000	-
St. Louis County HOME Funds	78,000	39,000
Jefferson Solid Waste	-	30,000
US Bank	30,000	-
Other	65,500	-
	$ 399,495	$ 118,960

Note 9 - Mortgages receivable

Mortgages receivable consist of noninterest-bearing mortgages secured by real estate, receivable in monthly installments through years ranging to 2049. Mortgage receivables include those mortgages repurchased from CitiMortgage upon homeowner default and second promissory notes on homes under the zero-equivalent mortgage method. Each mortgage is discounted to the value it could be sold to a third-party lender.

The Organization utilizes an affordable mortgage analysis method for financing homes. Under this method, the lending bank charges the homebuyer a below-market rate of interest. The monthly payments the homebuyer makes to the lending bank are the same as if the Organization was providing a zero-percent loan directly to the homebuyer. The Organization sells homes at a reduced price in order for the mortgage with interest to be equivalent to the mortgage with no interest at a normal sale price. The Organization holds the second mortgage on each home which will be forgiven over the life of the mortgage.

Mortgages receivable as of December 31, 2019 and 2018 are presented net of unamortized discount resulting from the imputation of interest as follows:

	2019	2018
Mortgages receivable at face value	$ 4,296,935	$ 4,501,035
Less: Reserve	(2,164,935)	(2,135,419)
Less: Allowance for doubtful accounts	(628,949)	(564,923)
Long-term portion of mortgages receivable	$ 1,503,051	$ 1,800,693

Note 10 - Home construction and inventory

Home construction and inventory for the years ended December 31, 2019 and 2018 consists of the following:

	2019	2018
Land	$ 211,264	$ 229,700
Construction in progress	762,475	1,157,558
Leased and available-for-sale homes	32,216	32,216
	$ 1,005,955	$ 1,419,474

Leases for homes contain purchase options, which allow the lessee to purchase the home with an affordable mortgage payable over 30 years. Leased and available-for-sale homes are valued in inventory at the lower of cost or net realizable proceeds after all expected selling costs. During 2019 and 2018, all leased homes have been sold to Habitat homebuyers.

Note 11 - Investments in New Markets Tax Credit programs

Habitat entered into three transactions involving New Markets Tax Credit ("NMTC") financing. Under the NMTC structure, Habitat makes investments in a leverage lender, whose sole purpose is to lend to an investment fund. The investment fund entity also receives capital contribution equity from private investors. The private investor receives tax credits in return for its contribution into the investment fund. The investment fund uses the loan from the leverage lender and the equity from the investors to make an investment in a community development entity ("CDE"). All of the proceeds received by the CDE are then loaned to Habitat.

Investment in HFHSTL Leverage Lender, LLC
In 2009, Habitat made an investment in HFHSTL Leverage Lender, LLC in the amount of $3,764,468, plus transaction costs of $105,198. Habitat was the 99.99% member of HFHSTL Leverage Lender, LLC. Habitat recorded its investment at cost plus transaction costs. In return for its investment, Habitat received a loan from USBCDE Sub-CDE XXXVII, LLC in the amount of $4,950,000.

In December 2015, USBCDE Investment Fund XXXVII, LLC (the "2009 Fund") and the upstream effective owner of USBCDE Sub-CDE XXXVII, LLC (holder of a promissory note due from Habitat) exercised its put option. Under the terms of the put option agreement, HFHSTL Leverage Lender, LLC purchased the ownership interest of the 2009 Fund. Exercise of the option effectively extinguished Habitat's outstanding debt owed to the 2009 Fund and resulted in $1,185,532 in debt forgiveness income during 2015.

In 2011, Habitat made an additional investment in HFHSTL Leverage Lender, LLC in the amount of $4,772,293, plus transaction costs of $141,362. Habitat recorded its investment at cost plus transaction costs. In return for its investment, Habitat received a loan from CBKC Subsidiary CDE X, LLC in the amount of $5,880,000.

As of December 31, 2019 and 2018, Habitat's investment in HFHSTL Leverage Lender, LLC is $0.

According to the option agreement, U.S. Bancorp Community Development Corporation ("USB"), who owns all of the membership interest in Habitat STL-CBKC Investment Fund, LLC, which is the 99.99% owner of CBKC Subsidiary CDE X, LLC, has an option to sell its ownership interest in Habitat STL-CBKC Investment Fund LLC to HFHSTL Leverage Lender, LLC. In July 2018, the put option was exercised. Under the terms of the put option agreement, HFHSTL Leverage Lender, LLC purchased the ownership interest of the 2009 Fund. Exercise of the option effectively extinguished Habitat's outstanding debt owed to the 2009 Fund and resulted in $1,107,707 in debt forgiveness income during 2018.

Investment in CCML Leverage I, LLC

In 2012, Habitat made an investment in CCML Leverage I, LLC in the amount of $1,448,866, plus transaction costs of $42,977. Habitat is the 20% member of CCML Leverage I, LLC. Habitat recorded its investment at cost plus transaction costs. In return for its investment, Habitat received a loan from CCM Community XVII LLC in the amount of $1,880,000.

As of December 31, 2019, and 2018, Habitat's investment in CCML Leverage I, LLC is $0 and $1,491,843, respectively.

In December 2019, USBCDE Investment Fund XVII, LLC (the "2012 Fund") and the upstream effective owner of CCM Community XVII LLC (holder of a promissory note due from Habitat) exercised its put option. Under the terms of the put option agreement, CCML Leverage I, LLC purchased the ownership interest of the 2012 Fund. Exercise of the option effectively extinguished Habitat's outstanding debt owed to the 2012 Fund and resulted in $431,133 in debt forgiveness income during 2019.

Investment in Harbor Habitat Leverage II, LLC

In 2017, Habitat made an investment in Harbor Habitat Leverage II, LLC in the amount of $1,207,410, plus transaction costs of $53,142. Habitat is the 16.67% member of Harbor Habitat Leverage II, LLC. Habitat recorded its investment at cost plus transaction costs. In return for its investment, Habitat received a loan from Harbor Community Fund XIII, LLC in the amount of $1,715,000.

As of December 31, 2019 and 2018, Habitat's investment in Harbor Habitat Leverage II, LLC was $1,260,552.

In December 2024, Twain Investment Fund 296, LLC (the "2017 Fund") and the upstream effective owner of Harbor Community Fund XIII, LLC (holder of the promissory note due from the Habitat) is expected to exercise its put option. Under the terms of the put option agreement, Harbor Habitat Leverage II, LLC is expected to purchase the ownership interest of the 2017 Fund. If the put option is not exercised, Harbor Habitat Leverage II, LLC has the option to purchase (call), at any time during the 12-month period following the expiration of the put option. Exercise of the option will effectively allow Habitat to extinguish its outstanding debt owed to the 2017 Fund.

Management expects the put option for each of its NMTC transactions to be exercised at the end of each respective compliance period. If that does occur, management anticipates revenue from the forgiveness of debt as follows for the years ending December 31:

		Revenue
2020	$	-
2021		-
2022		-
2023		-
2024		454,448
Total	$	454,448

Interest income earned from the investments and interest expense incurred from the loans during the years ended December 31, 2019 and 2018 is as follows:

		2019		2018
Interest income	$	20,487	$	53,850
Interest expense		(51,725)		(65,644)
Net interest	$	(31,238)	$	(11,794)

Note 12 - Fixed assets

Property and equipment are depreciated using the straight-line method over the estimated useful lives of the assets. Property and equipment as of December 31, 2019 and 2018 is comprised of the following:

	Useful life		2019		2018
Land	N/A	$	1,141,364	$	1,141,364
Building and improvements	10 - 40 years		2,788,450		2,788,450
Equipment	3 - 39 years		548,905		532,265
Vehicles	5 years		222,087		173,137
Computer software	3 years		42,687		42,687
Construction in progress	N/A		12,160		-
Total property and equipment			4,755,653		4,677,903
Less: Accumulated depreciation			(891,574)		(778,090)
Property and equipment, net		$	3,864,079	$	3,899,813

Depreciation expense for the years ended December 31, 2019 and 2018 was $113,484 and $70,480, respectively.

Note 13 - Capitalized costs

The guarantee fees associated with the NMTC transactions have been capitalized and amortized over the seven-year guarantee period. As of December 31, 2019 and 2018, guarantee fees amounted to $195,030 and $175,383, respectively, and accumulated amortization amounted to $106,696 and $64,080, respectively. During the years ending December 31, 2019 and 2018, amortization expense totaled $65,945 and $180,531, respectively.

Estimated amortization expense for the ensuing years is as follows:

Year	Amount
2020	$ 18,730
2021	18,730
2022	18,730
2023	18,730
2024	13,414
	$ 88,334

Note 14 - Lines of credit

Lines of credit at December 31, 2019 and 2018 consist of the following:

Lender	Face amount	Outstanding	Interest rate + prime rate	Maturity date	Function	Status, report date
People's National Bank, N.A.	$ 725,000	$ 156,101	5.25%	8/13/2020	Construction	To be repaid
People's National Bank, N.A.	12,500	12,500	5.75%	12/19/2020	Construction	To be repaid
People's National Bank, N.A.	450,000	31,832	5.75%	12/16/2020	Construction	To be repaid
Royal Banks of Missouri	800,000	800,000	5.75%	11/4/2020	Permanent	To be renewed
Total lines of credit, 12/31/19		$ 1,000,433				

Lender	Face amount	Outstanding	Interest rate + prime rate	Maturity date	Function
People's National Bank, N.A.	$ 230,772	$ 153,729	6.50%	9/30/2019	Construction
People's National Bank, N.A.	216,750	71,773	6.50%	9/24/2019	Construction
People's National Bank, N.A.	73,612	90,000	6.50%	9/30/2019	Construction
People's National Bank, N.A.	229,500	229,500	6.50%	10/3/2019	Construction
People's National Bank, N.A.	235,500	213,359	6.50%	10/17/2019	Construction
People's National Bank, N.A.	90,000	89,625	6.50%	9/30/2019	Construction
People's National Bank, N.A.	153,000	75,451	6.50%	11/20/2019	Construction
People's National Bank, N.A.	25,000	25,000	6.50%	12/21/2019	Construction
Royal Banks of Missouri	800,000	800,000	6.50%	11/4/2019	Permanent
Total lines of credit, 12/31/18		$ 1,748,437			

Note 15 - Long-term debt

Long-term debt at December 31, 2019 and 2018 consists of the following:

	2019	2018
CCM Community Development XVII LLC The loan in the amount of $1,880,000, dated April 12, 2012, is held by CCM Community Development XVII LLC. The loan bears interest at 0.7707%. Interest-only payments are due semi-annually until May 5, 2020. Commencing on May 5, 2020, semi-annual principal and interest payments in the amount of $114,467 are due until maturity. The loan matures on April 11, 2028. The loan is secured by the operating account held by U.S. Bancorp, the guaranty account held by the lender and the 2012 NMTC Project. The loan is also guaranteed by a related party if an event of NMTC recapture occurs. The loan has a put option feature that was exercised in December 2019 (Note 11), and a portion of the debt was forgiven.	$ -	$ 1,880,000
Harbor Community Fund XIII LLC The loan in the amount of $1,715,000, dated December 20, 2017, is held by Harbor Community Fund XIII LLC. The loan bears interest at fixed rate of 0.7041%. The loan matures on December 20, 2037. The loan is secured by the operating account, Joint expense Non-POB account and all other bank accounts held by U.S. Bank. The loan is also guaranteed by a related party if an event of NMTC recapture occurs. The loan has a put option feature that is exercisable in December 2024 (Note 11).	1,715,000	1,715,000
Lookaway Summit On December 29, 2014, Habitat purchased 18 parcels of real property from an individual in the amount of $243,000. The loan is noninterest-bearing and payments are due upon the closing of homes subsequently built and sold on each parcel of land. The loan matures on December 31, 2016, which was extended to December 31, 2017. It was again extended to December 31, 2018 at which time any remaining balance is due. During the year ended December 31, 2019, the loan was paid in full.	-	13,500

	2019	2018
Series 2017 Revenue Bonds On December 1, 2017, The Industrial Development Authority of the City of St. Louis, Missouri, issued Series 2017 revenue bonds in the amount of $2,040,000 to finance the rehabilitation of 3830 South Grand Boulevard, St. Louis, MO. Royal Bank of Missouri is the fiscal agent. The bonds carry interest at the rate of 3.3%. Principal and interest payments in the amount of $8,920 are due monthly begining on January 1, 2020. The loan matures on December 20, 2049.	2,040,000	2,040,000
Construction Loan The loan in the amount of $235,474, dated December 18, 2017, is held by the Royal Bank of Missouri. The loan bears interest at 5%. Principal and interest payments in the amount of $2,525 are due monthly beginning January 18, 2019. On March 13, 2018, the original loan amount was increased from $235,474 to $380,229. The loan matures on December 18, 2022.	366,899	378,225
Truck Loan The loan in the amount of $48,950, dated March 12, 2019, is held by the Royal Bank of Missouri. The loan bears interest at 5.75%. Principal and interest payments in the amount of $1,486 are due monthly beginning April 12, 2019. The loan matures on March 12, 2022. The loan is secured by a 2019 Ford F-550 and certain rights, title and interest in proceeds from a grant agreement, as specified in the loan agreement.	37,507	-
Total	4,159,406	6,026,725
Less: current maturities	(68,200)	(24,781)
Net long-term debt	$ 4,091,206	$ 6,001,944

Aggregate annual maturities of the mortgages and notes payable for each of the following years and thereafter is as follows:

Year	Amount
2020	$ 68,200
2021	71,185
2022	390,092
2023	44,514
2024	46,005
Thereafter	3,539,410
	$ 4,159,406

Note 16 - Net assets with donor restrictions

Net assets with donor restrictions are restricted for the following purposes or periods:

	2019	2018
Construction projects	$ 48,000	$ 48,000
Other	14,465	14,465
	$ 62,465	$ 62,465

Net assets of $229,090 and $567,814 were released from donor restrictions by incurring expenses satisfying the purpose or time restrictions specified by donors for the years ended December 31, 2019 and 2018, respectively.

Note 17 - Related party transactions

Habitat has a nonbinding covenant with Habitat for Humanity International, Inc. ("HFHI") to make an annual voluntary tithe payment to HFHI. In 2018 and 2019, Habitat paid $1,000 in tithe per year.

In 2013, HFHI implemented its Stewardship and Organizational Sustainability Initiative ("SOSI"), which requires payment from affiliates of annual fees based upon the size of the individual affiliate, in addition to the annual tithe. The annual fee required of Habitat is $25,000. In 2018 and 2019, Habitat paid $25,000 each year for the previous year's SOSI commitment. In 2020, HFHI has deferred the U.S. Stewardship and Organizational Sustainability Initiative ("US-SOSI") fee as follows: to be invoiced September 1, 2020. The first half of the invoiced amount will be due on November 1, 2020, and the balance will be due February 1, 2021.

Note 18 - Operating lease

On March 27, 2013, Habitat entered into a lease agreement to open a second ReStore location. The lease commenced on June 1, 2013 and terminated on May 31, 2018, with two five-year options to renew. During 2018, Habitat exercised the renewal option through May 31, 2023. The lease provides for annual base rent, a portion of which is donated back to Habitat each year on June 1, and monthly base rent payable by Habitat.

On November 14, 2016, Habitat entered into an amended lease agreement effective January 1, 2015. The new lease agreement states the Landlord shall compensate Habitat for the work performed, amount of any rent collected, and the amount of any invoice for service paid on behalf of the Landlord. During 2019 and 2018, Habitat received $49,223 and $175,473, respectively, of reimbursement expenses. In addition, the Landlord shall compensate Habitat with a management fee in the amount equal to 15% of the reimbursement expenses. During 2019 and 2018, Habitat received a management fee of $40,801 and $72,316, respectively. The reimbursement and the management fee are included in other income on the accompanying combined statements of activities.

On November 25, 2016, coincided with the sale of its administrative office property, Habitat entered into a lease agreement to lease back the property from the new owner. The lease commenced on April 28, 2017 and terminated on April 28, 2018.

The future minimum rental commitments under all such operating leases for the next four years are as follows:

Year	Total annual base rent
2020	$ 345,294
2021	357,374
2022	369,454
2023	156,037
Total	$ 1,228,159

Note 19 - Lease agreements

The Organization leases some of its properties from time-to-time. Although the Organization is a for-sale housing program, certain situations may arise where a property may be temporarily leased before it is sold. Most situations involve a lease-to-own or option-to-purchase agreement, but others may be only a rental situation for a fixed or renewable term.

During 2019, Habitat was receiving lease payments on one home. During 2018, Habitat was receiving lease payments on one home, which was sold during 2018.

Note 20 - Mortgages sold with recourse

Prior to 2002, Habitat sold mortgages receivable with recourse to the Missouri Housing Development Commission. Habitat has guaranteed payment of the mortgage loans and in the event of any loan default, Habitat will replace the non-performing loan with a performing loan or will buy back the non-performing loan at par. As of December 31, 2019 and 2018, the uncollected balances remaining on the mortgages totaled $4,927 and $8,579, respectively.

Note 21 - Commitments and contingencies

The purchase option agreement when a home is sold contains a provision that if the home is sold within 10 years of the initial date of the lease agreement, the Organization has the right to receive a certain percentage of the gain on the sale of the home. The percentage ranges from 100% if sold during the first year to 10% if sold in the 10th year.

The Organization provides a limited warranty to homeowners for all work done and materials provided in the construction of the home. This warranty is for one year from the date the buyer took occupancy, including the buyer's lease term. During this time, upon written notice from the purchaser, the Organization will repair or replace substantial defects free of charge. However, the Organization has the right to use the funds in the major repair fund (a portion of each mortgage payment is allocated to this escrow account). Based on past experience, management has determined no reserve is needed for warranties.

Note 22 - Employee benefit plan

Habitat implemented a SIMPLE-IRA plan in 1998. An employee is eligible for the plan if $2,400 of wages have been earned in any prior year. The plan provides for a deferral of compensation and an employer matching contribution, subject to certain limitations. During the years ended December 31, 2019 and 2018, Habitat's contribution to the plan amounted to $32,845 and $38,021, respectively. On December 31, 2019, Habitat terminated the SIMPLE-IRA plan in favor of a new 401(k) retirement plan.

Note 23 - Subsequent events

Events that occur after the combined balance sheet date but before the combined financial statements were available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the combined balance sheet date are recognized in the accompanying combined financial statements. Subsequent events which reflect significant matters but which provide evidence about conditions that existed after the combined balance sheet date require disclosure in the accompanying notes. Management evaluated the activity of the Organization through November 19, 2020 (the date the combined financial statements were available to be issued) and, other than the events discussed below, concluded that no additional subsequent events have occurred that would require recognition in the combined financial statements or disclosure in the notes to the combined financial statements.

The spread of a novel strain of coronavirus ("COVID-19") has caused significant business disruptions on the entire globe beginning in the first quarter of 2020. The economic impact of the business disruptions caused by COVID-19 is uncertain. The extent of any effects these disruptions may have on the operations and financial performance of the Organization will depend on future developments, including the possible impacts on the operations of the business, which cannot be determined.

On April 8, 2020, as part of the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") the Organization applied for and received a Paycheck Protection Program ("PPP") loan in the amount of $432,000, with an interest rate of 1%. No interest payment is required on the loan for the first 10 months following the date of the loan; however, interest shall continue to accrue during those first 10 months and shall be paid in equal monthly installments during the remaining 12 months of the loan. Payments of principal and interest on the unpaid principal balance shall be made monthly on the 11th month from the date of the loan through the 24th month from the date of the loan. The PPP was created to provide forgivable loans to eligible small businesses to assist in the payments of employee payroll during the COVID-19 pandemic. Under the PPP, the understanding is that the loan will be forgiven if certain conditions are met by the debtor. Management plans to apply for full forgiveness of the PPP loan since all proceeds were used for qualifying expenses.

On June 4, 2020, Habitat invested in a Leverage Lender for the purpose of taking advantage of the NMTC program. The Organization's investment in the Leverage Lender totaled $1,111,838 and represents a 25% ownership stake. The investment was comprised of reimbursement of costs of $1,111,838. As part of the arrangement, the Organization secured a 20-year loan from a community development entity which received tax credit allocation. The loan is in the amount of $1,521,250. The loan proceeds are to be used solely for the purpose of acquiring, rehabbing and/or constructing single-family homes in low-income communities and selling 100% of such homes to low-income persons. The loan will bear interest at a rate of 0.730945% per year. Semi-annual payments of interest only are due in years 1 through 7 with fully amortizing quarterly payments of principal and interest due in years 8 through 20.

At the end of the compliance period, in connection with this arrangement, the members of the Leverage Lender have the option to purchase USBCDC's ownership interest in the Investment Fund. Exercise of this option will effectively allow the Organization to extinguish its debt owed to the community development entity.

On September 16, 2020, Habitat, through its Qualified Active Low-Income Community Business ("QALICB"), entered into a $1,250,000 loan with IFF. Beginning December 1, 2020, interest on the loan shall accrue at a monthly rate of 5%, with the outstanding principal and all unpaid interest due on the maturity date, June 27, 2026.

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