

**HABITAT FOR HUMANITY
MISSISSIPPI CAPITAL AREA and
SUBSIDIARY
(A Non-Profit Organization)
Jackson, Mississippi**

Audited Financial Statements
Year Ended December 31, 2019 and 2018

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Habitat for Humanity Mississippi Capital Area and Subsidiary
Jackson, Mississippi

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Habitat for Humanity Mississippi Capital Area and Subsidiary (the "Company"), which comprise the consolidated statements of financial position as of December 31, 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 (collectively, the "financial statements").

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company 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.

HORNE LLP

Ridgeland, Mississippi
May 13, 2020

HABITAT FOR HUMANITY MISSISSIPPI CAPITAL AREA AND SUBSIDIARY

Consolidated Statements of Financial Position

December 31, 2019 and 2018

	2019	2018
ASSETS		
Current assets		
Cash and cash equivalents	\$ 959,266	\$ 1,287,935
Receivables	68,659	36,078
Prepaid expenses	8,316	20,717
Construction in progress	111,895	4,672
Current portion of mortgage notes receivable	958,717	976,095
Property held-for-resale	475,017	656,076
Total current assets	<u>2,581,870</u>	<u>2,981,573</u>
Mortgage notes receivable, collateralized by deeds of trust on real estate, less discounts of \$7,466,784 and \$7,872,597, respectively	7,076,900	7,063,580
Restricted cash	670,312	533,531
Note receivable	-	4,748,844
Interest receivable on note receivable	-	328,821
Property and equipment, net of accumulated depreciation	879,333	894,464
Other assets	-	33,188
Total non-current assets	<u>8,626,545</u>	<u>13,602,428</u>
Total assets	<u>\$ 11,208,415</u>	<u>\$ 16,584,001</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Amounts held for home owners	\$ 22,245	\$ 124,457
Accounts payable and accrued expenses	164,316	192,363
Deferred revenue	679,449	791,577
Current maturities of notes payable	471,421	847,954
Total current liabilities	<u>1,337,431</u>	<u>1,956,351</u>
Long-term liabilities		
Notes payable, less current maturities and discounts of \$1,220,068 and \$1,415,137, respectively	2,304,273	8,516,139
Total long-term liabilities	<u>2,304,273</u>	<u>8,516,139</u>
Total liabilities	3,641,704	10,472,490
Net assets		
Without donor restrictions	7,410,900	5,860,232
With donor restrictions	155,811	251,279
Total net assets	<u>7,566,711</u>	<u>6,111,511</u>
Total liabilities and net assets	<u>\$ 11,208,415</u>	<u>\$ 16,584,001</u>

See accompanying notes.

HABITAT FOR HUMANITY MISSISSIPPI CAPITAL AREA AND SUBSIDIARY

Consolidated Statements of Activities

Year Ended December 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue			
Home sales	\$ 1,408,600	\$ -	\$ 1,408,600
Contributions	140,224	383,277	523,501
Mortgage notes receivable discount amortization	704,539	-	704,539
Mortgage notes payable discount	33,010	-	33,010
Fundraising	248,648	83,014	331,662
Grants	-	662,196	662,196
Miscellaneous revenue	178,617	-	178,617
Net assets released from restriction	1,223,955	(1,223,955)	-
Total support and revenue	3,937,593	(95,468)	3,842,125
Expenses			
Program services			
Cost of homes sold	1,390,161	-	1,390,161
Mortgage notes receivable discount	481,677	-	481,677
Salaries, payroll taxes and insurance	240,587	-	240,587
Mortgage notes payable discount amortization	228,079	-	228,079
Property taxes and other property expenses	153,695	-	153,695
Miscellaneous program expenses	302,023	-	302,023
Impairment loss on property held for resale	151,857	-	151,857
Total program services	2,948,079	-	2,948,079
Management and general			
Salaries, payroll taxes and insurance	205,291	-	205,291
Administrative	115,931	-	115,931
Office occupancy	44,349	-	44,349
Total management and general	365,571	-	365,571
Fundraising			
Salaries, payroll taxes and insurance	213,423	-	213,423
Administrative and office occupancy	49,125	-	49,125
Special events	56,004	-	56,004
Total fundraising	318,552	-	318,552
Total expenses	3,632,202	-	3,632,202
Gains			
Gain on unwind of New Market Tax Credit Financing	1,245,277	-	1,245,277
Change in net assets	1,550,668	(95,468)	1,455,200
Net assets, beginning of year	5,860,232	251,279	6,111,511
Net assets, end of year	\$ 7,410,900	\$ 155,811	\$ 7,566,711

See accompanying notes.

HABITAT FOR HUMANITY MISSISSIPPI CAPITAL AREA AND SUBSIDIARY

Consolidated Statements of Activities

Year Ended December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue			
Home sales	\$ 1,893,930	\$ -	\$ 1,893,930
Contributions	131,829	724,865	856,694
Mortgage notes receivable discount amortization	605,065	-	605,065
Mortgage notes payable discount	45,978	-	45,978
Fundraising	215,752	84,721	300,473
Grants	-	301,906	301,906
Miscellaneous revenue	126,361	-	126,361
Net assets released from restriction	1,115,888	(1,115,888)	-
Total support and revenue	4,134,803	(4,396)	4,130,407
Expenses			
Program services			
Cost of homes sold	2,155,723	-	2,155,723
Mortgage notes receivable discount	549,065	-	549,065
Salaries, payroll taxes and insurance	249,450	-	249,450
Mortgage notes payable discount amortization	243,762	-	243,762
Property taxes and other property expenses	167,024	-	167,024
Miscellaneous program expenses	388,377	-	388,377
Impairment loss on property held for resale	888,873	-	888,873
Total program services	4,642,274	-	4,642,274
Management and general			
Salaries, payroll taxes and insurance	208,614	-	208,614
Administrative	118,382	-	118,382
Office occupancy	45,381	-	45,381
Total management and general	372,377	-	372,377
Fundraising			
Salaries, payroll taxes and insurance	209,823	-	209,823
Administrative and office occupancy	39,581	-	39,581
Special events	47,670	-	47,670
Total fundraising	297,074	-	297,074
Total expenses	5,311,725	-	5,311,725
Change in net assets	(1,176,922)	(4,396)	(1,181,318)
Net assets, beginning of year	7,037,154	255,675	7,292,829
Net assets, end of year	\$ 5,860,232	\$ 251,279	\$ 6,111,511

See accompanying notes.

HABITAT FOR HUMANITY MISSISSIPPI CAPITAL AREA AND SUBSIDIARY

Consolidated Statements of Functional Expenses

For the Year Ended December 31, 2019

	Support Services			Total
	Program Services	Management and General	Fundraising	
Salaries	\$ 189,312	\$ 164,882	\$ 168,496	\$ 522,690
Payroll taxes	12,612	12,529	12,402	37,543
Employee benefits	38,662	27,880	32,525	99,067
Total salaries and benefits	<u>240,586</u>	<u>205,291</u>	<u>213,423</u>	<u>659,300</u>
Cost of homes sold	1,367,611	-	-	1,367,611
Allocated management and general expenses	15,000	(15,000)	-	-
Amortization of loan closing cost (NMTC)	33,188	-	-	33,188
Contract labor	760	30,000	4,660	35,420
Demolitions	22,550	-	-	22,550
Dues and subscriptions	-	1,580	-	1,580
Employee supplies	-	1,620	-	1,620
Equipment	721	2,115	1,322	4,158
Filing fees	2,008	-	-	2,008
Financial service fees	-	5,441	-	5,441
HFHI sustainability fee	15,000	-	-	15,000
HFHI tithe	11,085	-	-	11,085
Homeowner expense	31,134	-	2,000	33,134
Impairment loss on property held for resale	151,857	-	-	151,857
Insurance	11,222	11,945	-	23,167
Interest expense (NMTC Loan)	44,912	-	-	44,912
IT expenses	12,978	13,234	14,951	41,163
Janitorial	-	6,970	-	6,970
Legal fees	925	-	-	925
License and permits	-	308	-	308
Meeting expense	10	3,357	365	3,732
Miscellaneous	953	7,033	-	7,986
Mortgage loan service fees	70,544	-	-	70,544
Mortgage loan underwriting expenses	2,726	-	-	2,726
Mortgage notes payable discount amortization	228,079	-	-	228,079
Mortgage notes receivable discount	481,677	-	-	481,677
NMTC expenses	33,500	-	-	33,500
Occupancy supplies	-	3,091	-	3,091
Office landscape maintenance	-	2,028	-	2,028
Office security	-	956	-	956
Office supplies	2,064	6,535	4,035	12,634
Postage	1,131	1,618	21,087	23,836
Printing	1,424	-	32,870	34,294
Professional fees	2,500	38,700	-	41,200
Property maintenance	42,037	-	-	42,037
Property taxes	55,005	-	-	55,005
Repairs and maintenance	2,654	6,531	-	9,185
Software	971	4,026	4,325	9,322
Special event expenses	-	-	13,378	13,378
Staff activities	-	670	-	670
Staff recruiting	-	481	-	481
Staff training	17,253	3,025	560	20,838
Supplies	-	-	290	290
Travel	1,541	4,344	1,917	7,802
Unemployment tax assessment	-	-	-	-
Utilities	4,976	8,288	-	13,264
Volunteer expenses	253	-	3,369	3,622
Warranty repairs	25,860	-	-	25,860
	<u>2,696,109</u>	<u>148,896</u>	<u>105,129</u>	<u>2,950,134</u>
Total expenses before depreciation	<u>2,936,695</u>	<u>354,187</u>	<u>318,552</u>	<u>3,609,434</u>
Depreciation	11,384	11,384	-	22,768
Total expenses	<u>\$ 2,948,079</u>	<u>\$ 365,571</u>	<u>\$ 318,552</u>	<u>\$ 3,632,202</u>

See accompanying notes.

HABITAT FOR HUMANITY MISSISSIPPI CAPITAL AREA AND SUBSIDIARY

Consolidated Statements of Functional Expenses

For the Year Ended December 31, 2018

	Support Services			Total
	Program Services	Management and General	Fundraising	
Salaries	\$ 201,618	\$ 171,522	\$ 166,164	\$ 539,304
Payroll taxes	13,014	11,458	17,031	41,503
Employee benefits	34,818	25,633	26,628	87,079
Total salaries and benefits	<u>249,450</u>	<u>208,613</u>	<u>209,823</u>	<u>667,886</u>
Cost of homes sold	2,128,223	-	-	2,128,223
Allocated management and general expenses	27,500	(27,500)	-	-
Advertising	-	-	110	110
Amortization of loan closing cost (NMTC)	49,786	-	-	49,786
Collection expenses	16,362	-	-	16,362
Contractor labor	-	20,000	15,000	35,000
Contributions	-	-	20	20
Dues and subscriptions	-	1,576	91	1,667
Employee supplies	-	2,167	-	2,167
Equipment	-	1,022	216	1,238
Family recruiting	4,996	-	-	4,996
Filing fees	1,149	-	-	1,149
Financial service fees	-	4,442	-	4,442
HFHI sustainability fee	15,000	-	-	15,000
HFHI tithe	34,200	-	-	34,200
Homeowner expense	7,321	-	2,000	9,321
Impairment loss on property held for resale	888,873	-	-	888,873
Insurance	19,154	12,172	-	31,326
Interest expense (NMTC loan)	76,832	-	-	76,832
IT expenses	13,440	10,152	11,021	34,613
Janitorial	-	6,270	-	6,270
Legal fees	3,555	-	-	3,555
License and permits	-	298	-	298
Meeting expense	64	2,645	116	2,825
Miscellaneous	6,209	2,441	-	8,650
Mortgage loan service fees	79,084	-	-	79,084
Mortgage loan underwriting expenses	5,058	-	-	5,058
Mortgage notes payable discount amortization	243,762	-	-	243,762
Mortgage notes receivable discount	549,064	-	-	549,064
NMTC expenses	12,000	-	-	12,000
Occupancy supplies	-	3,284	-	3,284
Office landscape maintenance	-	1,824	-	1,824
Office security	-	452	-	452
Office supplies	2,902	5,418	3,599	11,919
Postage	603	1,711	13,353	15,667
Printing	-	-	21,262	21,262
Professional fees	-	70,000	3,010	73,010
Property maintenance	62,963	-	-	62,963
Property taxes	75,123	-	-	75,123
Repairs and maintenance	2,270	7,787	514	10,571
Software	760	3,355	4,074	8,189
Special event expenses	-	-	7,540	7,540
Staff activities	-	662	-	662
Staff recruiting	-	242	-	242
Staff training	39	4,484	278	4,801
Supplies	-	-	582	582
Travel	128	2,404	1,813	4,345
Unemployment tax assessment	-	6,110	-	6,110
Utilities	5,367	8,934	-	14,301
Volunteer expenses	-	-	2,652	2,652
Warranty repairs	49,625	-	-	49,625
	<u>4,381,412</u>	<u>152,352</u>	<u>87,251</u>	<u>4,621,015</u>
Total expenses before depreciation	<u>4,630,862</u>	<u>360,965</u>	<u>297,074</u>	<u>5,288,901</u>
Depreciation	11,412	11,412	-	22,824
Total expenses	<u>\$ 4,642,274</u>	<u>\$ 372,377</u>	<u>\$ 297,074</u>	<u>\$ 5,311,725</u>

See accompanying notes.

HABITAT FOR HUMANITY MISSISSIPPI CAPITAL AREA AND SUBSIDIARY

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

	2019	2018
Operating activities		
Change in net assets	\$ 1,455,200	\$ (1,181,318)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	41,620	49,142
Amortization of deferred financing costs	33,188	49,786
Mortgage notes receivable discounts, net of amortization	(222,862)	(56,000)
Gain on unwind of New Market Tax Credit Financing	(1,245,277)	-
Mortgage notes payable discount, net of amortization	195,069	197,784
Impairment loss on property held for resale	151,857	888,873
Changes in assets and liabilities		
Receivables	(76,038)	(70,934)
Construction in progress	(107,223)	332,637
Property held-for-resale	29,202	2,227
Prepaid expenses	12,401	(5,738)
Deferred revenue	(112,128)	(344,064)
Amounts held for home owners	(102,212)	31,300
Accounts payable and accrued expenses	(28,047)	(41,722)
Net cash provided by (used in) operating activities	24,750	(148,027)
Investing activities		
Net decrease in mortgage notes receivable	226,920	224,835
Purchases of equipment	(26,489)	-
Net cash provided by investing activities	200,431	224,835
Financing activities		
Net decrease in notes payable	(417,069)	(361,308)
Net cash used in financing activities	(417,069)	(361,308)
Net decrease in cash and cash equivalents	(191,888)	(284,500)
Cash and cash equivalents, beginning of year	1,821,466	2,105,966
Cash and cash equivalents, end of year	\$ 1,629,578	\$ 1,821,466
Cash consists of		
Cash and cash equivalents	\$ 959,266	\$ 1,287,935
Restricted cash	670,312	533,531
Cash and cash equivalents, end of year	\$ 1,629,578	\$ 1,821,466
Supplemental disclosure of non-cash investing activities:		
Discount on non-interest bearing notes receivable	\$ 481,677	\$ 549,065
Repossession of homes	\$ 219,090	\$ 303,177
Decrease in restricted investments in LLC	\$ 4,748,844	\$ -
Supplemental disclosure of non-cash financing activities:		
Forgiveness of notes payable	\$ 6,366,399	\$ -
Discharge of accrued interest receivable	\$ 372,278	\$ -

See accompanying notes.

HABITAT FOR HUMANITY MISSISSIPPI CAPITAL AREA
December 31, 2019 and 2018

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Nature of Activities and Significant Accounting Policies

Nature of Activities

Habitat for Humanity Mississippi Capital Area (the "Company") was organized under the laws of the State of Mississippi in 1986 as an affiliate of Habitat for Humanity International ("Habitat International"). The Company's objective is to provide decent, affordable housing in partnership with working families. Homes are constructed or renovated and sold to families on a no-interest basis. Families are selected on the basis of need, ability to repay the loan and willingness to put in 125 to 250 hours of labor in the building of their own houses and another Habitat house. The capital needed to build these homes is obtained through gifts, interest-free loans and grants including federal funds and volunteer labor.

The Company owns 99.9 percent of its subsidiary HFH - Metro Jackson Leverage Lender, LLC, ("HFH"), which was organized in 2012 for the sole purpose of carrying out certain investment transactions more fully described in Note 3. HFH was dissolved as a part of the unwinding of the New Market Tax Credit ("NMTC") financing more fully described in Note 3.

Principles of Consolidation and Basis of Presentation

The consolidated financial statements include the financial statements of the Company and its subsidiary. All material intercompany balances and transactions have been eliminated upon consolidation.

The Company's financial statements are presented in accordance with accounting principles generally accepted in the United States of America, which requires the Company to report information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of the Company's management and the board of directors.

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 the Company or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated that resources be maintained in perpetuity. Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

Use of Estimates

The preparation of 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

HABITAT FOR HUMANITY MISSISSIPPI CAPITAL AREA
December 31, 2019 and 2018

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Continued

Cash and Cash Equivalents

The Company considers all cash and interest bearing accounts, which are not subject to withdrawal restrictions or penalties, to be cash equivalents. Restricted cash consists primarily of contributions restricted for construction expenses of particular homes.

Mortgage Notes Receivable

Mortgage notes receivable are reported at net realizable value, which is the present value of the amount due under the notes after discounting for the time value of money.

The Company does not establish an allowance for uncollectible accounts since all accounts are considered to be collectible and all are collateralized by properties with estimated fair values in excess of the loan balances.

Note Receivable

The note receivable relates to HFH's receivable from a non-related entity pertaining to New Market Tax Credit financing transactions and is carried at net realizable value. The note receivable was discharged as a part of the unwinding of the New Market Tax Credit, as more fully described in Note 3.

Property Held for Resale

Properties previously sold to applicants and returned to the Company through foreclosure or by voluntary return of the property by purchaser are held on the books at the cost of the unpaid mortgage plus cost to renovate. These properties are renovated and then sold to approved applicants.

The Company determined certain properties' costs would not be fully recoverable when sold. Accordingly, the Company reduced the carrying value of these properties by approximately \$152,000 and \$889,000 in each of the years ended December 31, 2019 and 2018, respectively, which is included in the consolidated statements of activities.

Construction in Progress

Construction in progress is recorded when costs are incurred and represents real estate costs, costs of building materials, general contractor fees and contractor labor costs.

Property and Equipment

Purchased property and equipment are capitalized at cost. Contributions of property and equipment are recognized at estimated fair market value as of the date of contribution. Property and equipment is depreciated using the straight-line method, over the estimated useful life of the related assets. Depreciation expense was \$41,620 and \$49,142 for the years ended December 31, 2019 and 2018, respectively. The Company capitalizes all property and equipment purchases that are not clearly de minimis.

HABITAT FOR HUMANITY MISSISSIPPI CAPITAL AREA
December 31, 2019 and 2018

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Continued

Net Assets

The Company reports donations of cash as net assets with donor restrictions if amounts are received with donor stipulations that limit the use of the funds. The Company receives donations from individuals, churches and other organizations to be used for the building of homes and for the purchase of land. When the 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. Contributions without donor restrictions are recognized in support and revenue when received or unconditionally promised.

Revenue Recognition

Revenues consist primarily of home sales to qualified low-income applicants at appraised value. The Company recognizes revenue in accordance with Financial Accounting Standards Board ("FASB") ASC Topic 606, Revenue from Contracts with Customers ("ASC 606").

A performance obligation, as defined in ASC 606, is a promise in a contract to transfer a distinct good or service to a customer. A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue at the point in time, or over the period in which the performance obligation is satisfied.

Performance obligations associated with home sales are satisfied when homeowners have completed all program requirements and the home is sold and deeded to the homeowner.

For home sales, the transaction price is fixed based on the appraised value of the home. The Company finances the home with a no-interest first mortgage. The Company's transactions do not contain variable consideration, significant financing components, noncash considerations, or consideration payable to the customer. The Company does not offer cash discounts for early payments.

Unconditional grants and contributions are recognized as revenues in the period received. Conditional grants and contributions are not recognized as revenues until the condition on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value at the date of donation.

Cost of Homes Sold

Costs incurred in conjunction with home construction are charged to construction in progress and are included in cost of homes sold when a house is sold to a homeowner.

Donated Services

No amounts have been reflected in the financial statements for donated services that do not require specialized skills. Nevertheless, a large number of volunteers have given significant amounts of their time for construction of the homes, as well as to the Company's fund-raising campaigns and management. Services that require specialized skills that would need to be purchased if not donated and that have a clearly measurable basis, are recorded at their estimated fair value. In addition, the fair rental values of properties furnished rent-free are also recorded as in-kind contributions.

HABITAT FOR HUMANITY MISSISSIPPI CAPITAL AREA
December 31, 2019 and 2018

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Continued

Grants

The Company receives grant income from Habitat International and other financial assistance programs that supplement its traditional funding sources. The Company recognizes grant revenue as the conditions in the grant agreement are met. The Company recognized approximately \$126,500 and \$84,000 of grant income from Habitat International during the years ended December 31, 2019 and 2018, respectively.

Interest-Free Loans

Under the Community Reinvestment Act ("CRA"), the Company has received interest-free financing with financial institutions for the construction of homes. Likewise, the mortgage notes receivable between the purchasers and the Company are interest free, which enables ownership opportunities for lower income applicants. Interest is imputed on the mortgage notes receivable and mortgage notes payable by discounting the instruments to their respective present values, based on an assumed 7.66 and 7.57 percent interest rate as of December 31, 2019 and 2018, respectively, over the terms of each note. Since the Company does not anticipate making a profit on the interest rate spread, a similar rate is used to discount the mortgage notes receivable and the mortgage notes payable. The difference between the face value and present value of each note receivable is considered to be donated interest by the maker of the note and is recorded as expense in the year the loan is originated. Conversely, the interest forgiven under the CRA on notes payable is recorded as income. The discount on mortgage notes receivable and payable is amortized to income and expense, respectively, by use of the effective interest method over the term of each loan.

Deferred Revenue

Deferred revenue represents amounts collected but not earned as of December 31, 2019 and 2018. This is primarily comprised of grants received from state and federal agencies. Revenue is recognized upon the sale of the related home.

Income Taxes

The Company is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and similar state provisions.

Advertising Costs

The Company expenses advertising costs as incurred. All advertising costs are considered fund raising expenses and are included as such on the statements of activities. Advertising costs totaled \$2,186 and \$6,447 for the years ended December 31, 2019 and 2018, respectively.

Functional Allocation of Expenses

The cost of providing the various programs and other activities has been summarized on a functional basis in the statement of activities. Accordingly, certain costs, such as salaries and benefits, information technologies, general office supplies, general software and utilities, have been allocated among the programs and supporting services benefited by either time and effort or full time equivalent allocation.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Continued

Recent Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-09, *Revenues from Contracts with Customers* (Topic 606), which clarifies the principles for recognizing revenue. This guidance requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Company adopted the standard on January 1, 2019 using the modified retrospective method. Results for reporting periods beginning January 1, 2019 are presented under Topic 606, while prior-period accounts are not adjusted and continue to be reported under accounting standards in effect for the prior period. There was no cumulative effect adjustment recorded to opening net assets as of January 1, 2019 upon adoption of Topic 606. Adoption of this standard resulted in expanded disclosure but did not otherwise have a material impact on the consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which sets out the principles for recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e. lessees and lessors). The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively financed by a purchase of the lease. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight line basis over the term of the lease, respectively. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. The new standard will require lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. The standard is effective for the Company on January 1, 2022, with early adoption permitted. The Company is evaluating the effect that the updated standard will have on its consolidated financial statements.

In June 2018, the FASB issued ASU 2018-18, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This guidance clarifies and improves the scope and the accounting guidance for contributions received and contributions made, in order to reduce diversity in practice for grants and other similar contracts. For contributions (nonreciprocal transaction), an entity should follow the guidance in ASC 958-605 *Not-for-Profit Entities – Revenue Recognition*, and for exchange (reciprocal) transactions an entity should follow other guidance. The adoption of this new accounting guidance did not have a material impact on the Company's consolidated financial statements.

HABITAT FOR HUMANITY MISSISSIPPI CAPITAL AREA
December 31, 2019 and 2018

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2. Mortgage Notes Receivable

The Company had mortgage notes receivable at December 31, 2019, as follows:

Receivable in less than one year	\$ 958,717
Receivable in one to five years	3,712,776
Receivable in six to ten years	3,652,593
Receivable thereafter	<u>7,178,315</u>
Total mortgage receivable	15,502,401
Less discounts to present value at 7.39 to 8.00 percent	<u>7,466,784</u>
Net mortgage notes receivable	<u>\$ 8,035,617</u>

Note 3. New Market Tax Credit Financing

NMTC financing allows an entity to receive a loan or investment capital from third-party investors, who will receive tax credits to be applied toward their federal and state income tax liabilities. As a result, the Company has invested funds and secured 15-year loans payable to community development entities. The loan proceeds are required to be used solely for the purpose of constructing and selling qualified properties to low income residents. As more fully described at Note 5, the loans accrue interest only for years 1 through 7 at a reduced rate of 1.2317 percent and beginning in year 8 through year 15 the principal balances of the loans are reduced by an eight year amortization at the same rate of interest.

In connection with the NMTC financing activities, the Company and HFH have notes payable to and notes receivable from certain special purpose entities owned by non-related investors and lenders associated with the NMTC financing. The NMTC agreements also contain option agreements, which allow investors the right to sell their ownership interest in the special purpose entity for a specified nominal price or allows the Company the right to purchase an investor's ownership at a nominal price on or after a specified date at least seven years from the date of the applicable transaction.

In September 2019, pursuant to the NMTC agreements, the Company and the third-party investors exercised their options as contemplated under the NMTC agreements. Accordingly, at that time, the Company's note receivable from HFH NMTC Investment fund, LLC totaling \$4,748,844, related accrued interest receivable of \$372,278, the note payable to Munistrategies MS NMTC Investments II, LLC of \$683,899 and the note payable to Munistrategies Sub-CDE4, LLC of \$5,682,500 were forgiven resulting in a gain of \$1,245,277, which is included in gain on unwind of new market tax credit financing on the statement of activities for the year ended December 31, 2019. Upon completion of these transactions, HFH was dissolved.

HABITAT FOR HUMANITY MISSISSIPPI CAPITAL AREA
December 31, 2019 and 2018

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3. Continued

Following is a summary of the assets at December 31, 2019 and 2018 resulting from the NMTC transactions:

	2019	2018
Restricted cash (unexpended loan proceeds)	\$ -	\$ 58,807
Note receivable from HFH NMTC Investment Fund, LLC	-	4,748,844
Interest receivable on note receivable from HFH NMTC Investment Fund, LLC	-	328,821
Unamortized deferred financing costs Munistrategies Sub-CDE4, LLC	-	33,188
Total	\$ -	\$ 5,169,660

The above assets are subject to certain risks associated with the compliance requirements of the applicable NMTC transactions.

Note 4. Property and Equipment

The major classes of property and equipment are as follows:

	2019	2018
Land	\$ 76,717	\$ 76,717
Buildings and improvements	1,024,350	1,024,350
Furnishings and equipment	456,409	429,920
	1,557,476	1,530,987
Less accumulated depreciation	678,143	636,523
Total	\$ 879,333	\$ 894,464

HABITAT FOR HUMANITY MISSISSIPPI CAPITAL AREA
December 31, 2019 and 2018

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5. Notes Payable

The following is a summary of notes payable at December 31, 2019 and 2018:

	2019	2018
Notes payable to Habitat International at no interest; loans are payable in monthly installments of \$1,114 beginning January 2017, net of imputed interest of \$566 and \$2,114 in 2019 and 2018, respectively.	\$ 12,860	\$ 24,681
Note payable to Habitat International at no interest; loan is payable in monthly installments of \$506 beginning January 2018, net of imputed interest of \$959 and \$2,072 in 2019 and 2018, respectively.	11,203	16,161
Notes payable to Habitat International at no interest; loan is payable in monthly installments of \$579 beginning January 2019, net of imputed interest of \$2,675 and \$1,479 in 2019 and 2018, respectively.	19,393	40,032
Notes payable to Habitat International at no interest; loans are payable in monthly installments beginning January 2020.	37,610	16,250
Notes payable to banks; payable in monthly installments totaling \$1,701 at no interest through varying dates ending March 2046, collateralized by the assignments of the Deeds of Trust which collateralize mortgage notes receivable of \$286,815 and \$306,856, net of imputed interest of \$115,676 and \$91,072 in 2019 and 2018, respectively.	143,646	119,583
Notes payable to housing corporation; payable in monthly installments totaling \$5,495 at no interest through varying dates ending in 2045, collateralized by the assignments of the Deeds of Trust which collateralize mortgage notes receivable of \$734,712 and \$788,519, net of imputed interest of \$303,824 and \$336,688 in 2019 and 2018, respectively.	391,568	425,409
Notes payable to state agency; payable in monthly installments totaling \$12,049 at no interest through varying dates ending in 2029, collateralized by the assignments of the Deeds of Trust which collateralize mortgage notes receivable of \$1,318,581 and \$1,630,309, net of imputed interest of \$291,167 and \$367,589 in 2019 and 2018, respectively.	827,061	916,475
Revolving credit facility at no interest, payable in monthly installments of \$15,000, collateralized by mortgage notes receivable, net of imputed interest \$502,853 and \$614,123 in 2019 and 2018, respectively.	1,332,353	1,439,103

HABITAT FOR HUMANITY MISSISSIPPI CAPITAL AREA AND SUBSIDIARY
December 31, 2019 and 2018

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5. Continued

	2019	2018
Munistrategies MS NMTC Investments II, LLC Note payable to allocate of New Market Tax Credits, in conjunction with New Market Tax Credit Financing obtained in 2012. This debt was forgiven in 2019, as more fully described in Note 3.	\$ -	\$ 683,899
Munistrategies Sub-CDE4, LLC Note payable to allocate of New Market Tax Credits, in conjunction with New Market Tax Credit Financing obtained in 2012. This debt was forgiven in 2019, as more fully described in Note 3.	-	5,682,500
Total debt	2,775,694	9,364,093
Less current maturities	471,421	847,954
Long-term debt, less current maturities	<u>\$ 2,304,273</u>	<u>\$ 8,516,139</u>

The Company maintains a revolving credit facility (the "Credit Facility") with a syndicate of lenders. The Credit Facility is non-interest bearing and has maximum availability of \$5,545,000. Available borrowings are determined monthly based on, among other things, outstanding mortgage notes receivables, as defined. The Credit Facility requires minimum monthly payments of \$15,000 and may be prepaid in full without penalty. Outstanding borrowings at December 31, 2019 and 2018 were \$1,835,206 and \$2,053,226, respectively and are recorded net of imputed interest of \$502,853 and \$614,123, respectively. Additional available borrowings under the Credit Facility at December 31, 2019 were approximately \$3,075,000. The Credit Facility agreement states the Company is to maintain net assets of at least \$5,045,625 and EBITDA shall not be negative for two successive years. Substantially all of the Company's mortgage notes receivable collateralize borrowings under the Credit Facility. The Credit Facility matures May 24, 2022.

Maturities of debt for the next five years and in the aggregate are as follows:

Period Ending	Amount
December 31, 2019	
2020	\$ 471,421
2021	454,773
2022	1,626,567
2023	215,420
2024	199,386
Thereafter	<u>1,028,195</u>
Total borrowings outstanding	3,995,762
Less unamortized imputed interest	<u>1,220,068</u>
Net borrowings outstanding	<u><u>\$ 2,775,694</u></u>

HABITAT FOR HUMANITY MISSISSIPPI CAPITAL AREA AND SUBSIDIARY
December 31, 2019 and 2018

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6. Restrictions on Net Assets

Net assets with donor restrictions consist of unexpended contributions and grants restricted by the donor or grantor for the acquisition of land and houses and for construction and rehabilitation costs of houses. Net assets restricted for the acquisition of land and houses and rehabilitation costs of houses totaled \$155,811 and \$251,279 as of December 31, 2019 and 2018, respectively.

Note 7. Unrecorded Contributed Services

Management estimates the fair value of contributed services representing general volunteer construction labor that does not require specialized skills approximated \$34,575 and \$48,532 for 2019 and 2018, respectively. The value of those services not requiring specialized skills are not recorded in the financial statements of the Company.

Note 8. Concentrations of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist of cash investments at financial institutions. The Company had cash deposits at financial institutions in excess of insurable limits of \$250,000 as of December 31, 2019 of approximately \$868,000.

Note 9. Liquidity and Availability

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

	2019	2018
Financial assets at year-end:		
Cash, cash equivalents and restricted cash	\$ 1,629,578	\$ 1,821,466
Receivables	72,603	364,899
Current maturities of mortgage loans receivable	958,717	976,095
Total financial assets	2,660,898	3,162,460
Less amounts not available to be used within one year:		
Net assets with donor restrictions	155,811	251,279
Board designated net assets for sponsored house construction	514,501	250,914
Other restricted cash	-	31,338
Interest receivable on note receivable from HFH NMTC Investment Fund, LLC	-	328,821
	607,312	862,352
Financial assets available to meet general expenditures over the next twelve months	\$ 2,053,586	\$ 2,300,108

A substantial portion of contributions received by the Company are for sponsored house construction. The Company utilizes unrestricted contributions, grants and mortgage loan proceeds to cover operating expenses. In addition, the Company can utilize the Credit Facility discussed in Note 5 and by using third party financial institutions that partner with the Company to originate mortgages at zero percent interest on homes sold by the Company.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10. Subsequent Events

The Company has evaluated subsequent events through May 13, 2020, the date the financial statements were available to be issued.

Subsequent to the statement of financial position date, the World Health Organization declared the outbreak of COVID-19, a novel strain of Coronavirus, a pandemic. The coronavirus outbreak is disrupting supply chains and affecting production and sales across a range of industries. The extent of the impact of the outbreak on our operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, impact on our customers, employees and vendors, and governmental, regulatory and private sector responses. The consolidated financial statements do not reflect any adjustments as a result of the subsequent increase in economic uncertainty.