

**HABITAT FOR HUMANITY OF
WICOMICO COUNTY, INC.**

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

**HABITAT FOR HUMANITY OF
WICOMICO COUNTY, INC.**

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INDEPENDENT AUDITORS' REPORT

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To the Board of Directors
Habitat for Humanity of Wicomico County, Inc.
Salisbury, Maryland

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

Auditors' 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 the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

Auditors' Responsibility (Continued)

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

Opinion

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

Emphasis of matter

As discussed in the notes to the financial statements, the Organization adopted new accounting guidance ASU 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

CERTIFIED PUBLIC ACCOUNTANTS

Salisbury, Maryland
October 4, 2019

HABITAT FOR HUMANITY OF WICOMICO COUNTY, INC.

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2019 AND 2018

ASSETS

	<u>2019</u>	<u>2018</u>
CURRENT ASSETS		
Cash	\$ 256,697	\$ 258,814
Accounts receivable	1,040	1,988
Grants receivable	20,000	37,650
Prepaid expenses	11,919	5,733
ReStore inventory	66,466	64,058
Current portion of notes receivable	5,935	4,358
Current portion of mortgages receivable	131,466	127,402
Total current assets	<u>493,523</u>	<u>500,003</u>
NON-CURRENT ASSETS		
Cash - restricted	45,330	74,785
Inventory - land and buildings	387,439	387,439
Construction in progress	296,169	160,570
Notes receivable, net of discount and current portion	18,611	1,977
Mortgages receivable, net of discount and current portion	873,893	900,015
Property and equipment, net	396,454	411,013
Total non-current assets	<u>2,017,896</u>	<u>1,935,799</u>
Total assets	<u>\$ 2,511,419</u>	<u>\$ 2,435,802</u>

LIABILITIES AND NET ASSETS

	2019	2018
CURRENT LIABILITIES		
Current portion of note payable and long-term debt	\$ 13,144	\$ 12,592
Accounts payable	33,800	60,336
Accrued payroll and related expenses	24,817	28,052
Sales tax payable	5,831	5,687
Homeowner deposits		15,333
Deferred revenue	1,000	
Total current liabilities	78,592	122,000
NON-CURRENT LIABILITIES		
Escrow deposits	45,330	74,785
Note payable less current portion	9,420	14,558
Long-term debt less current portion	263,008	271,045
Total non-current liabilities	317,758	360,388
Total liabilities	396,350	482,388
NET ASSETS		
Without donor restrictions		
Operating	1,913,401	1,826,860
Investment in fixed assets, net of related debt	110,882	112,818
	2,024,283	1,939,678
With donor restrictions	90,786	13,736
Total net assets	2,115,069	1,953,414
Total liabilities and net assets	\$ 2,511,419	\$ 2,435,802

The accompanying notes are an integral part of these financial statements.

HABITAT FOR HUMANITY OF WICOMICO COUNTY, INC.

STATEMENTS OF ACTIVITIES

YEARS ENDED JUNE 30, 2019 AND 2018

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
PUBLIC SUPPORT AND REVENUES			
Contributions	\$ 142,891	\$ 5,104	\$ 147,995
Grants	43,458	83,076	126,534
ReStore revenues	399,072		399,072
Less: cost of goods sold	(406,138)		(406,138)
ReStore donations - in kind	401,205		401,205
Other donations - in kind	64,005		64,005
Sales to homeowners	120,000		120,000
Neighborhood revitalization income		48,715	48,715
Mortgage and note interest income	107,544		107,544
Other program income	1,288		1,288
Rental income	7,755		7,755
Special events income, net	23,941		23,941
Interest and dividend income	95		95
Recycling income	2,932		2,932
Miscellaneous income	633		633
Net assets released from restrictions	59,845	(59,845)	
Total public support and revenues	<u>968,526</u>	<u>77,050</u>	<u>1,045,576</u>
EXPENSES			
Program services			
Housing and other services	439,495		439,495
ReStore expenses	289,854		289,854
Supporting services			
Management and general	110,696		110,696
Fundraising	43,876		43,876
Total expenses	<u>883,921</u>		<u>883,921</u>
Change in net assets	84,605	77,050	161,655
NET ASSETS, BEGINNING OF YEAR	<u>1,939,678</u>	<u>13,736</u>	<u>1,953,414</u>
NET ASSETS, END OF YEAR	<u>\$ 2,024,283</u>	<u>\$ 90,786</u>	<u>\$ 2,115,069</u>

2018		
Without Donor Restrictions	With Donor Restrictions	Total
\$ 38,092	\$ 102,910	\$ 141,002
36,898	70,150	107,048
384,618		384,618
(388,548)		(388,548)
391,323		391,323
	33,578	33,578
561,000		561,000
6,668		6,668
64,421		64,421
2,082		2,082
14,973		14,973
42,867		42,867
85		85
2,053		2,053
46		46
402,576	(402,576)	
<u>1,559,154</u>	<u>(195,938)</u>	<u>1,363,216</u>
962,429		962,429
262,772		262,772
100,603		100,603
40,598		40,598
<u>1,366,402</u>		<u>1,366,402</u>
192,752	(195,938)	(3,186)
<u>1,746,926</u>	<u>209,674</u>	<u>1,956,600</u>
<u>\$ 1,939,678</u>	<u>\$ 13,736</u>	<u>\$ 1,953,414</u>

The accompanying notes are an integral part of these financial statements.

HABITAT FOR HUMANITY OF WICOMICO COUNTY, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

YEARS ENDED JUNE 30, 2019 AND 2018

	2019						
	Program Services			Supporting Services			
	Housing and Other Services	ReStore Expenses	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total
EXPENSES							
Salaries	\$ 116,062	\$ 163,521	\$ 279,583	\$ 59,792	\$ 25,035	\$ 84,827	\$ 364,410
Employee benefits	687	225	912	1,057	603	1,660	2,572
Payroll taxes	7,330	13,329	20,659	4,647	1,941	6,588	27,247
Construction and land costs	164,307		164,307				164,307
Mortgage and note discount	85,006		85,006				85,006
Rental property expense	120		120				120
Professional fees				10,750		10,750	10,750
International tithe	13,036		13,036				13,036
Supplies	2,303	8,096	10,399	3,074	2,563	5,637	16,036
Telephone	1,712	3,184	4,896	796	796	1,592	6,488
Interest	1,703	10,792	12,495	851	851	1,702	14,197
Postage and shipping	371		371	544	2,229	2,773	3,144
Equipment	12,126	216	12,342	7,701	2,498	10,199	22,541
Printing and publications					2,540	2,540	2,540
Meetings	4,549	2,856	7,405	4,090	772	4,862	12,267
Dues and subscriptions		3,600	3,600	8,493		8,493	12,093
Advertising	658	22,945	23,603	325	2,698	3,023	26,626
Taxes	6,401	4,439	10,840	794	432	1,226	12,066
Training	1,985		1,985	279	76	355	2,340
Depreciation		20,350	20,350	2,763		2,763	23,113
Insurance	13,026	4,643	17,669	2,130		2,130	19,799
Mission costs	757	2,022	2,779				2,779
Occupancy expenses	6,339	13,306	19,645	1,014	762	1,776	21,421
Other expenses	362	7,535	7,897	1,596	80	1,676	9,573
Vehicles		8,795	8,795				8,795
Licenses	655		655				655
Total expenses	\$ 439,495	\$ 289,854	\$ 729,349	\$ 110,696	\$ 43,876	\$ 154,572	\$ 883,921

2018

	Program Services			Supporting Services			
	Housing and Other Services	ReStore Expenses	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total
EXPENSES							
Salaries	\$ 93,465	\$ 152,427	\$ 245,892	\$ 54,550	\$ 24,639	\$ 79,189	\$ 325,081
Employee benefits	154	232	386	154	154	308	694
Payroll taxes	6,194	12,124	18,318	4,115	1,852	5,967	24,285
Construction and land costs	469,723		469,723				469,723
Mortgage and note discount	332,181		332,181				332,181
Rental property expense	644		644				644
Professional fees				11,900	615	12,515	12,515
Legal fees	815		815				815
International tithe	19,221		19,221				19,221
Supplies	2,946	3,470	6,416	2,418	1,673	4,091	10,507
Telephone	1,879	3,323	5,202	1,185	913	2,098	7,300
Interest	1,966	11,557	13,523	874	874	1,748	15,271
Postage and shipping	1,008	14	1,022	492	1,680	2,172	3,194
Equipment	243		243	5,144	676	5,820	6,063
Printing and publications					4,687	4,687	4,687
Travel				22		22	22
Meetings	1,819	282	2,101	760	230	990	3,091
Dues and subscriptions	2,680	3,600	6,280	8,666	30	8,696	14,976
Advertising	300	16,809	17,109		970	970	18,079
Taxes	6,748	4,438	11,186	670	370	1,040	12,226
Training	689	313	1,002	104	143	247	1,249
Depreciation		22,250	22,250	1,970		1,970	24,220
Insurance	10,952	3,552	14,504	4,238		4,238	18,742
Mission costs	1,490	4,137	5,627				5,627
Occupancy expenses	6,005	10,299	16,304	1,571	996	2,567	18,871
Other expenses	1,307	6,436	7,743	1,770	96	1,866	9,609
Vehicles		7,509	7,509				7,509
Total expenses	\$ 962,429	\$ 262,772	\$ 1,225,201	\$ 100,603	\$ 40,598	\$ 141,201	\$ 1,366,402

The accompanying notes are an integral part of these financial statements.

HABITAT FOR HUMANITY OF WICOMICO COUNTY, INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 161,655	\$ (3,186)
Adjustment to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	23,113	24,220
Change in operating assets and liabilities:		
Decrease (increase) in operating assets		
Accounts receivable	948	(1,699)
Grants receivable	17,650	(37,650)
Prepaid expenses	(6,186)	(4,201)
ReStore inventory	(2,408)	(6,973)
Inventory - land and buildings		70,852
Construction in progress	(135,599)	86,591
Notes receivable	(18,211)	1,139
Mortgages receivable	22,058	(174,664)
Increase (decrease) in operating liabilities		
Accounts payable	(26,536)	16,055
Accrued payroll and related expenses	(3,235)	8,781
Sales tax payable	144	87
Homeowner deposits	(15,333)	15,333
Escrow deposits	(29,455)	34,856
Deferred revenue	1,000	
Net cash provided (used) by operating activities	(10,395)	29,541
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(8,554)	(16,018)
Net cash used by investing activities	(8,554)	(16,018)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal paid on long-term debt	(12,623)	(12,090)
Net cash used by financing activities	(12,623)	(12,090)
Net increase (decrease) in cash	(31,572)	1,433
CASH, BEGINNING OF YEAR	333,599	332,166
CASH, END OF YEAR	\$ 302,027	\$ 333,599
SUPPLEMENTARY INFORMATION		
Cash paid for interest	\$ 14,197	\$ 15,271

The accompanying notes are an integral part of these financial statements.

HABITAT FOR HUMANITY OF WICOMICO COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

NATURE OF ORGANIZATION

Habitat for Humanity of Wicomico County, Inc. (the “Organization”), founded in 1987, is a non-profit, 501(c)(3) organization incorporated in the State of Maryland. The Organization is one of over 1400 affiliates of Habitat for Humanity International, Inc. (“Habitat International”); however, the Organization’s financials and operations are independent of any other affiliate.

The key programs of the Organization are home building of affordable homes to first-time homebuyers, home repairs for older homeowners, and the retail thrift shop (“ReStore”). The Organization serves low-income families that earn between 30-60% of the area median income for our first-time homebuyer program and under 80% of the area median income for our Roof & Repair program. The Organization is a licensed Maryland home builder, exempt Maryland Mortgage lender and a licensed National Mortgage Licensed non-profit. The Organization also accepts donations of used furniture, building materials, appliances and household items that are resold in ReStore. The ReStore funds the mission and provides operating income for the entire organization plus additional net income to fund the Organization’s home building and home repair programs. The Organization’s income is derived from the mortgage payments of the loans they service, sales from the ReStore thrift store, donations from individuals and businesses, and grants from both government and independent foundations. Many of the grants and federal funds are restricted to construction materials for the two programs but as of recently, workforce development grants also funded salaries and stipends for new positions and social work interns

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Basis of presentation

The Organization has adopted the provisions of the American Institute of Certified Public Accountants’ *Audit and Accounting Guide for Not-For-Profit Entities* in the presentation of its financial information. Net assets and revenues are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

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 Organization’s management and the board of directors.

HABITAT FOR HUMANITY OF WICOMICO COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of presentation (continued)

Net assets with donor restrictions: Net assets that are stipulated by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or passage of time.

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. The Organization has elected to treat all support in which the restrictions are met in the current year as unrestricted support.

Contributions

Contributions received are recorded depending on the existence and/or nature of any donor restrictions. Contributions of inventory items to the ReStore are valued at their estimated sale value and recorded as revenue separately in the statement of activities.

Inventories

ReStore inventory, which consists of donated goods to be sold at the thrift store, is recorded at an estimated fair value.

Inventory - Land and buildings are recorded at cost and consists of various properties for future development and certain properties under construction.

Construction in progress

Construction in progress is comprised of construction costs incurred in current Habitat homes under construction or in repair and valued at cost.

Property and equipment

Property and equipment is capitalized if it has a value greater than or equal to \$5,000 and is carried at cost when purchased and at fair market value when received, if donated. Depreciation is computed using straight-line and accelerated methods over the estimated useful lives of the respective assets ranging from three to ten years for equipment, and ten to forty years for buildings and improvements. The cost of maintenance and repairs is charged to expense as incurred while significant renewals and betterments are capitalized.

HABITAT FOR HUMANITY OF WICOMICO COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and equipment (continued)

Cost, depreciation and accumulated depreciation at June 30, 2019 are as follows:

	<u>Cost</u>	<u>Current Depreciation</u>	<u>Accumulated Depreciation</u>
Land	\$ 74,000	\$	\$
Building	295,778	9,859	98,596
Building improvements	129,171	5,371	39,230
Furniture and equipment	27,030	1,809	22,218
Vehicles	50,105	6,074	19,586
	<u>\$ 576,084</u>	<u>\$ 23,113</u>	<u>\$ 179,630</u>

Cost, depreciation and accumulated depreciation at June 30, 2018 are as follows:

	<u>Cost</u>	<u>Current Depreciation</u>	<u>Accumulated Depreciation</u>
Land	\$ 74,000	\$	\$
Building	295,778	9,859	88,737
Building improvements	129,171	5,123	33,859
Furniture and equipment	27,030	1,707	20,409
Vehicles	41,552	7,531	13,513
	<u>\$ 567,531</u>	<u>\$ 24,220</u>	<u>\$ 156,518</u>

Gifts in kind

Services - Contributed services recognized include those that require specialized skills, are provided by individuals possessing those skills, and would otherwise need to be purchased if not provided by donation. The services are valued at the amount that would have to be paid if purchased.

Donated materials and property - In-kind contributions of material and property are recorded based on their estimated fair market value on the date of receipt.

Sales to homeowners/construction and land costs

Sales to homeowners are recorded at gross sales of Organization homes to the final owner. A separate construction and land cost is recorded at time of sale and represents the Organization's cost of the property sold.

HABITAT FOR HUMANITY OF WICOMICO COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Mortgages receivable

The Organization is both the builder and the lender to its clients. Mortgages receivable are recorded at the gross amount of payments to be received over the lives of the mortgages ranging from seven to 30 years and then discounted. Habitat for Humanity International publishes a discount rate yearly each June 30 for Affiliates to reference in computing mortgage discounts based on prevailing market rates for low income housing at inception of the mortgages. Mortgage discounts range from 7.66% to 9% from 1996 to 2019. For the year ended June 30, 2019 and 2018, mortgage discount rates were 7.66% and 7.57%, respectively; there were one and five new mortgages issued during the years ending June 30, 2019 and 2018, respectively. The straight line method is used to amortize discounts over the life of the mortgages, which are reported as mortgage interest income. Because the mortgages are collateralized by the property sold, management has elected not to record an allowance for bad debts.

Mortgages receivable at June 30, 2019 and 2018 are as follows:

	2019	2018
Mortgages receivable at face value	\$ 2,380,182	\$ 2,434,584
Less unamortized discount	(1,374,823)	(1,407,167)
Net mortgage receivable	<u>\$ 1,005,359</u>	<u>\$ 1,027,417</u>

The above net mortgages receivable are shown on the Statement of Financial Position as follows:

	2019	2018
Current portion	\$ 131,466	\$ 127,402
Non-current portion	873,893	900,015
Net mortgages receivable	<u>\$ 1,005,359</u>	<u>\$ 1,027,417</u>

The current portion of mortgages receivable was based on principal payments that will be received in the next twelve months.

Notes receivable

Notes receivable are recorded at the gross amount of the payments to be received over the lives of the notes receivable ranging from three to five years. Habitat for Humanity International publishes a discount rate yearly on June 30 for Affiliates to reference in computing mortgage discounts based on prevailing market rates for low income housing at inception. These rates were used in computing discounts on notes receivable at inception. For the year ended June 30, 2019 and 2018, the discount rate was 7.57% and 7.67%, respectively; there were three and one new notes issued during the years ended June 30, 2019 and 2018, respectively. The straight line method is used to amortize discounts over the life of the notes receivable, which are reported as interest income. The loans are subject to certain reductions not to exceed 10% if all terms of the loan are timely met.

HABITAT FOR HUMANITY OF WICOMICO COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Notes receivable (continued)

Notes receivable at June 30, 2019 and 2018 are as follows:

	2019	2018
Notes receivable at face value	\$ 35,081	\$ 7,065
Less unamortized discount	(10,535)	(730)
Net notes receivable	<u>\$ 24,546</u>	<u>\$ 6,335</u>

The above net notes receivable are shown on the Statement of Financial Position as follows:

	2019	2018
Current portion	\$ 5,935	\$ 4,358
Non-current portion	18,611	1,977
Net notes receivable	<u>\$ 24,546</u>	<u>\$ 6,335</u>

The current portion of notes receivable was based on principal payments that will be received in the next twelve months.

Income taxes

The Organization qualifies as a tax-exempt non-profit organization under Section 501(c)(3) of the Internal Revenue Code, and therefore has no provision for income taxes.

Under the provisions of Financial Accounting Standards Board (FASB) ASC 740, *Income Taxes*, tax positions initially need to be recognized in the financial statements when it is more likely than not the positions will be sustained upon examination by the taxing authorities. As of June 30, 2019 and 2018, the Organization has no uncertain tax positions that qualify for either recognition or disclosure in the financial statements.

Reclassifications

Certain accounts in prior year financial statements have been reclassified for comparative purposes to be in conformity with the presentation in the current year financial statements.

Advertising

The Organization follows the policy of charging the costs of advertising to expense as incurred. The amount of advertising expensed for the year ended June 30, 2019 and 2018 was \$26,625 and \$18,079, respectively.

Subsequent events

Management has evaluated subsequent events through October 4, 2019, the date the financial statements were available to be issued.

HABITAT FOR HUMANITY OF WICOMICO COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures of the financial statements. Actual results could differ from those estimates.

Functional allocation of expenses

The Organization's primary programs are Community Building, Roof & Repair programs, and the ReStore thrift shop. Organizational expenses are divided by these programs. The Organization's volunteer engagement, financial literacy program, youth outreach, youth workforce development and social service referrals are incurred in support of these primary activities. Natural expenses attributable to more than one functional expense category are allocated using a variety of cost allocation techniques such as square footage and time and effort. The expenses that are allocated include the following:

Expense	Method of Allocation
Salaries and benefits	Time and effort
Equipment and supplies	Time and effort
Meetings, travel and training	Time and effort
Depreciation	Square footage
Utilities and occupancy	Square footage
Insurance	Square footage
Other expenses	Time and effort

New accounting standards

On August 18, 2016, FASB issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. Habitat for Humanity of Wicomico County, Inc. has adjusted the presentation of these statements accordingly.

CASH

The Organization has concentrated its credit risk for cash by maintaining deposits in financial institutions within the geographic region of the Eastern Shore of Maryland. Cash accounts and certificates of deposit with a federally insured bank are fully insured by FDIC, an agency of the Federal government, up to \$250,000. As of June 30, 2019 and 2018, the Organization's deposits did not exceed the FDIC limits.

HABITAT FOR HUMANITY OF WICOMICO COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

TRANSACTIONS WITH HABITAT INTERNATIONAL

Annually, the Organization remits ten percent of its ReStore profits and contributions, excluding in-kind contributions and contributions that have been restricted to Wicomico County by donors, to Habitat International. These funds are used to construct homes in economically depressed areas around the world. For the years ended June 30, 2019 and 2018, the Organization contributed \$13,036 and \$19,221, respectively, to Habitat International. This title is included under program service expenses in the Statement of Functional Expenses.

SPECIAL EVENTS

For the years ended June 30, 2019 and 2018 the Organization had several special events. The revenue and expenses for those events were as follows:

	2019			2018		
	Revenue	Expenses	Net	Revenue	Expenses	Net
Chefs for Habitat	\$ 47,909	\$ 21,139	\$ 26,770	\$ 60,482	\$ 21,270	\$ 39,212
5k Run				3,300	1,711	1,589
Quarter Auction				3,402	851	2,551
Other	84	2,913	(2,829)	1,421	1,906	(485)
	<u>\$ 47,993</u>	<u>\$ 24,052</u>	<u>\$ 23,941</u>	<u>\$ 68,605</u>	<u>\$ 25,738</u>	<u>\$ 42,867</u>

COMMUNITY FOUNDATION FUNDS

The Organization has an Endowment Fund at the Community Foundation of the Eastern Shore, Inc. (a non-profit charitable foundation). This fund is considered an asset of the Foundation and is not set up as an asset of the Organization based on the agreement with the Community Foundation which gives the Foundation a variance power over the Fund. The Organization can receive an annual income based on guidelines as outlined in the agreement. The balance of the fund at June 30, 2019 and 2018 was \$50,765 and \$50,158, respectively. The balance available to the Organization to draw on (income available for grants) was \$3,893 and \$1,305 as of June 30, 2019 and 2018, respectively. The Organization drew no funds in fiscal year 2019 or fiscal year 2018. This is recognized as contribution income in the Statement of Activities.

RETIREMENT PLAN

The Organization has a 401(k) plan whereby after 90 days of employment, employees may elect a payroll deduction towards this self-directed 401(k) retirement plan. The Organization does not match employee contributions.

HABITAT FOR HUMANITY OF WICOMICO COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

ESCROW DEPOSITS/RESTRICTED CASH

Escrow deposits are the amounts held on behalf of a local organization for a short term repair project and amounts collected from the borrowers for the homeowners' insurance and real estate taxes. Amounts from borrowers are included with the borrowers required monthly mortgage payment, are kept in separate bank accounts and are used to pay insurance and real estate taxes when due. At June 30, 2019 and 2018, escrow deposits and related restricted cash totaled \$45,330 and \$74,785, respectively.

NOTE PAYABLE

In March 2017, the Organization assumed a loan with a total principal balance of \$25,500 at a fixed borrowing rate of 3.29%. The life on this loan is five years with monthly payments of principal and interest due in the amount of \$462. The note payable is secured by a vehicle, with an original cost of \$31,894, for which it was used to acquire. Future minimum principal payments as of June 30, 2019 are as follows:

Year ending June 30,	Principal
2020	\$ 5,136
2021	5,308
2022	4,112
	<u>\$ 14,556</u>

MORTGAGE PAYABLE

In August 2009, the Organization assumed a mortgage loan with a total principal balance of \$328,500 at a fixed borrowing rate of 6.75%. This loan was modified on March 14, 2016 with a new borrowing rate of 4.95% for five years and monthly payments of principal and interest due in the amount of \$1,773. The loan is due and payable in full on demand on or after March 14, 2021. The mortgage is secured by the Organization's property at 908 West Isabella Street, Salisbury, MD 21801. Future minimum principal payments as of June 30, 2019 are as follows:

Year ending June 30,	Principal
2020	\$ 8,008
2021	263,008
	<u>\$ 271,016</u>

HABITAT FOR HUMANITY OF WICOMICO COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

REPORTING OF INVESTMENT RETURNS

The Organization does not have any stock investments. During the year ended June 30, 2019, a stock account was opened at Morgan Stanley so that donors who wished to donate stock to the Organization would be able to do so. Stocks donated would be immediately sold and designated to the program the donor advised.

REAL ESTATE INVESTMENTS

The Organization has investments in mortgage receivables and real estate, all of which are located in Salisbury, MD. The Organization does not have any cash or cash equivalents invested in stocks or public equities. There are currently 35 mortgage liens on properties previously sold by the Organization. The mortgages are recorded in land records at zero percent interest. The discount interest rate as of June 30, 2019 is 7.66% as provided by Habitat International. The real estate holdings are as follows:

908 W. Isabella Street	Office and location of the ReStore Thrift Shop
707 E. Church Street	Construction in process – to be sold by September 2019
711 Grace Street	Construction in process – to be sold by December 2019
714 Grace Street	Vacant lot – future site of affordable housing
716 Grace Street	Vacant lot – future site of affordable housing
504 Tangier Street	Vacant lot – future site of affordable housing
309 Barclay Street	Vacant lot – currently a community garden
319 Martin Street	Construction in process – boarded up currently
321 Martin Street	Construction in process – boarded up currently
414 Elizabeth Street	Construction in process – boarded up currently
704 S. Westover	Condemned home – to be demolished by December 2019
Naylor Street	Vacant lot – future site of affordable housing
609 Dawn Court	Vacant lot – future site of affordable housing
611 Dawn Court	Vacant lot – future site of affordable housing
312 Martin Street	Transitional housing rental – to become affordable housing

NET ASSETS WITH DONOR RESTRICTIONS

Donor restricted net assets include funds received from the Neighborhood Revitalization Initiative (“NRI”) which was created by Habitat International in 2013 to address home repair needs for low income homeowners. This program was renamed “Roof and Repair Program” by the Organization for marketing purposes, and to clarify to the public what the program was and how it would benefit them.

HABITAT FOR HUMANITY OF WICOMICO COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

AVAILABILITY AND LIQUIDITY

The following represents Habitat for Humanity of Wicomico County, Inc.'s financial assets June 30,:

	<u>2019</u>	<u>2018</u>
Financial assets at year end:		
Cash and cash equivalents	\$ 302,027	\$ 333,599
Accounts receivable	1,040	1,988
Grants receivable	20,000	37,650
Mortgages and notes receivable	<u>1,029,905</u>	<u>1,033,752</u>
Total financial assets	<u>1,352,972</u>	<u>1,406,989</u>
Less amounts not available to be used for general expenditures:		
Restricted cash for escrow deposits held	45,330	74,785
Net assets with donor restrictions	90,786	13,736
Long-term portion of mortgages and notes receivable	<u>892,504</u>	<u>901,992</u>
	<u>1,028,620</u>	<u>990,513</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 324,352</u>	<u>\$ 416,476</u>

The Organization manages its cash available to meet general expenditures by adopting and operating within an annual budget approved by the Board of Directors.

Habitat International suggests its affiliated organizations maintain financial assets to meet 60 days of operating expenses, but Habitat for Humanity of Wicomico County, Inc.'s goal is to maintain six months (approximately \$200,230). As part of its liquidity plan, excess cash is invested in short-term investments, including savings or money market accounts at various financial institutions.

HABITAT FOR HUMANITY OF WICOMICO COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

NEW ACCOUNTING STANDARDS

FASB issued Accounting Standards Updated (ASU) No. 2014-09, *Revenue with Contracts with Customers (Topic 606)*. ASU No. 2014-09 supersedes the revenue recognition requirements in *Topic 605, Revenue Recognition*, and most industry-specific guidance. Under the requirements of ASU 2014-09, the core principle is that entities recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expected to be entitled in exchange for those goods or services. The Organization will be required to retrospectively adopt the guidance in ASU 2014-09 for its year ending June 30, 2020; early application is not permitted. ASU 2014-09 is not expected to have a material impact on the Organization's financial statements.

FASB issued ASU No. 2016-02, *Leases*. Under the new guidance, a lessee will be required to recognize assets and liabilities for leases with lease terms of more than 12 months. Consistent with current Generally Accepted Accounting Principles (GAAP), the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease. However, unlike current GAAP—which requires only capital leases to be recognized on the balance sheet—the new ASU will require both types of leases to be recognized on the balance sheet. The new guidance on leases will take effect for the year ending June 30, 2022.