

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

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2020 AND 2019

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

TABLE OF CONTENTS

	<u>Page(s)</u>
INDEPENDENT AUDITORS' REPORT	1 - 2
FINANCIAL STATEMENTS	
Statements of financial position	3
Statements of activities	4
Statements of functional expenses	5
Statements of cash flows	6
Notes to financial statements	7 - 20



PKS & Company, P.A.

*Certified Public Accountants
& Advisors to Business*

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ALLIANCE GLOBAL

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, 2020 and 2019, and the related statements of activities, functional expenses and cash flows 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, 2020 and 2019, 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, Habitat for Humanity of Wicomico County, Inc. adopted Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* and all subsequent amendments to the ASU. Our opinion is not modified with respect to this matter.

PKS & Company, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

Salisbury, Maryland
November 16, 2020

HABITAT FOR HUMANITY OF WICOMICO COUNTY, INC.

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2020 AND 2019

ASSETS

	<u>2020</u>	<u>2019</u>
CURRENT ASSETS		
Cash	\$ 263,217	\$ 256,697
Accounts receivable	1,408	1,040
Grants receivable	95,287	20,000
Prepaid expenses	8,355	11,919
ReStore inventory	70,525	66,466
Construction in progress	318,060	296,169
Current portion of notes receivable	14,226	5,935
Current portion of mortgages receivable	139,053	131,466
Total current assets	<u>910,131</u>	<u>789,692</u>
NON-CURRENT ASSETS		
Cash - restricted	51,099	45,330
Land and buildings held for development	340,942	387,439
Notes receivable, net of discount and current portion	63,552	18,611
Mortgages receivable, net of discount and current portion	936,444	873,893
Property and equipment, net	383,869	396,454
Total non-current assets	<u>1,775,906</u>	<u>1,721,727</u>
Total assets	<u>\$ 2,686,037</u>	<u>\$ 2,511,419</u>

LIABILITIES AND NET ASSETS

	2020	2019
CURRENT LIABILITIES		
Current portion of note payable and long-term debt	\$ 13,614	\$ 13,144
Accounts payable	42,989	33,800
Line of credit	61,992	
Accrued payroll and related expenses	21,803	24,817
Sales tax payable	6,814	5,831
Refundable advance		1,000
Total current liabilities	147,212	78,592
NON-CURRENT LIABILITIES		
Escrow deposits	51,099	45,330
Refundable advance - Paycheck Protection Program	64,300	
Note payable less current portion	4,110	9,420
Long-term debt less current portion	254,636	263,008
Total non-current liabilities	374,145	317,758
Total liabilities	521,357	396,350
NET ASSETS		
Without donor restrictions		
Operating	1,900,744	1,913,401
Investment in fixed assets, net of related debt	111,509	110,882
	2,012,253	2,024,283
With donor restrictions	152,427	90,786
Total net assets	2,164,680	2,115,069
Total liabilities and net assets	\$ 2,686,037	\$ 2,511,419

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, 2020 AND 2019

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
PUBLIC SUPPORT AND REVENUES			
Contributions	\$ 81,311	\$ 77,329	\$ 158,640
Grants	255,031	4,750	259,781
ReStore revenues	423,424		423,424
Less: cost of goods sold	(449,302)		(449,302)
ReStore donations - in kind	427,207		427,207
Other donations - in kind	56,559		56,559
Sales to homeowners	298,000		298,000
Neighborhood revitalization income		86,157	86,157
Mortgage and note interest income	89,566		89,566
Other program income	1,337		1,337
Rental income	9,195		9,195
Special events income, net	43,862		43,862
Interest income	1,530		1,530
Recycling income	1,279		1,279
Miscellaneous income	81		81
Net assets released from restrictions	106,595	(106,595)	
Total public support and revenues	<u>1,345,675</u>	<u>61,641</u>	<u>1,407,316</u>
EXPENSES			
Program services			
Housing and other services	911,449		911,449
ReStore expenses	282,811		282,811
Supporting services			
Management and general	116,800		116,800
Fundraising	46,645		46,645
Total expenses	<u>1,357,705</u>		<u>1,357,705</u>
Change in net assets	(12,030)	61,641	49,611
NET ASSETS, BEGINNING OF YEAR	<u>2,024,283</u>	<u>90,786</u>	<u>2,115,069</u>
NET ASSETS, END OF YEAR	<u>\$ 2,012,253</u>	<u>\$ 152,427</u>	<u>\$ 2,164,680</u>

2019		
Without Donor Restrictions	With Donor Restrictions	Total
\$ 142,891	\$ 5,104	\$ 147,995
43,458	83,076	126,534
399,072		399,072
(406,138)		(406,138)
401,205		401,205
64,005		64,005
120,000		120,000
	48,715	48,715
107,544		107,544
1,288		1,288
7,755		7,755
23,941		23,941
95		95
2,932		2,932
633		633
59,845	(59,845)	
<u>968,526</u>	<u>77,050</u>	<u>1,045,576</u>
439,495		439,495
289,854		289,854
110,696		110,696
43,876		43,876
<u>883,921</u>		<u>883,921</u>
84,605	77,050	161,655
<u>1,939,678</u>	<u>13,736</u>	<u>1,953,414</u>
<u>\$ 2,024,283</u>	<u>\$ 90,786</u>	<u>\$ 2,115,069</u>

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

2019

	Program Services			Supporting Services		
	Housing and Other Services	ReStore Expenses	Total Program Services	Management and General	Fundraising	Total Supporting Services
EXPENSES						
Salaries	\$ 116,062	\$ 163,521	\$ 279,583	\$ 59,792	\$ 25,035	\$ 84,827
Employee benefits	687	225	912	1,057	603	1,660
Payroll taxes	7,330	13,329	20,659	4,647	1,941	6,588
Construction and land costs	164,307		164,307			
Mortgage and note discount	85,006		85,006			
Cost of goods sold		406,138	406,138			
Rental property expense	120		120			
Professional fees				10,750		10,750
International title	13,036		13,036			
Supplies	2,303	8,096	10,399	3,074	2,563	5,637
Telephone	1,712	3,184	4,896	796	796	1,592
Interest	1,703	10,792	12,495	851	851	1,702
Postage and shipping	371		371	544	2,229	2,773
Equipment	12,126	216	12,342	7,701	2,498	10,199
Printing and publications					2,540	2,540
Meetings	4,549	2,856	7,405	4,090	772	4,862
Dues and subscriptions		3,600	3,600	8,493		8,493
Advertising	658	22,945	23,603	325	2,698	3,023
Taxes	6,401	4,439	10,840	794	432	1,226
Training	1,985		1,985	279	76	355
Depreciation	13,026	20,350	20,350	2,763		2,763
Insurance	757	4,643	17,669	2,130		2,130
Mission costs	6,339	2,022	2,779			
Occupancy expenses	362	13,306	19,645	1,014	762	1,776
Other expenses		7,535	7,897	1,596	80	1,676
Direct special event expenses					24,052	24,052
Vehicles		8,795	8,795			8,795
Licenses	655		655			
Total expenses by function	439,495	695,992	1,135,487	110,696	67,928	178,624
Less cost of goods sold		(406,138)	(406,138)			
Less direct expenses for special events					(24,052)	(24,052)
Total expenses as presented on the Statements of Activities	\$ 439,495	\$ 289,854	\$ 729,349	\$ 110,696	\$ 43,876	\$ 154,572
						\$ 883,921

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, 2020 AND 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 49,611	\$ 161,655
Adjustment to reconcile change in net assets to net cash used by operating activities:		
Depreciation	22,585	23,113
Mortgage and note discount	202,041	85,006
Change in operating assets and liabilities:		
Decrease (increase) in operating assets		
Accounts receivable	(368)	948
Grants receivable	(75,287)	17,650
Prepaid expenses	3,564	(6,186)
ReStore inventory	(4,059)	(2,408)
Land and buildings held for development	46,497	
Construction in progress	(21,891)	(135,599)
Notes receivable	(73,550)	(28,938)
Mortgages receivable	(251,861)	(52,221)
Increase (decrease) in operating liabilities		
Accounts payable	9,189	(26,536)
Accrued payroll and related expenses	(3,014)	(3,235)
Sales tax payable	983	144
Homeowner deposits		(15,333)
Escrow deposits	5,769	(29,455)
Refundable advance	(1,000)	1,000
Net cash used by operating activities	<u>(90,791)</u>	<u>(10,395)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	<u>(10,000)</u>	<u>(8,554)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal paid on long-term debt	(13,212)	(12,623)
Proceeds from line of credit	61,992	
Refundable advance received	64,300	
Net cash provided (used) by financing activities	<u>113,080</u>	<u>(12,623)</u>
Net increase (decrease) in cash	12,289	(31,572)
CASH, BEGINNING OF YEAR	<u>302,027</u>	<u>333,599</u>
CASH, END OF YEAR	<u>\$ 314,316</u>	<u>\$ 302,027</u>
SUPPLEMENTARY INFORMATION		
Cash paid for interest	<u>\$ 14,915</u>	<u>\$ 14,197</u>

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

HABITAT FOR HUMANITY OF WICOMICO COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

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, 2020 AND 2019

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.

Land and buildings held for development are recorded at cost paid or appraised value of properties donated and consist 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 are 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, 2020 AND 2019

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and equipment (continued)

Cost, depreciation and accumulated depreciation at June 30, 2020 are as follows:

	Cost	Current Depreciation	Accumulated Depreciation
Land	\$ 74,000	\$	\$
Building	295,778	9,860	108,456
Building improvements	139,171	6,120	45,350
Furniture and equipment	27,030	1,584	23,802
Vehicles	50,105	5,021	24,607
	<u>\$ 586,084</u>	<u>\$ 22,585</u>	<u>\$ 202,215</u>

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

	Cost	Current Depreciation	Accumulated Depreciation
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>

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 price of Organization homes to the final owner and recognized at the date of settlement and transfer of title, at which point the performance obligation is met as defined in ASC 606. The accumulated costs of construction and land carrying value are then removed from their respective asset accounts and recognized on the Statement of Functional Expenses at total cost.

HABITAT FOR HUMANITY OF WICOMICO COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

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 7.38% to 9% from 1996 to 2020. For the year ended June 30, 2020 and 2019, mortgage discount rates were 7.38% and 7.66%, respectively; there were two and one new mortgages issued during the years ending June 30, 2020 and 2019, 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, 2020 and 2019 are as follows:

	2020	2019
Mortgages receivable at face value	\$ 2,544,932	\$ 2,380,182
Less unamortized discount	(1,469,435)	(1,374,823)
Net mortgage receivable	<u>\$ 1,075,497</u>	<u>\$ 1,005,359</u>

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

	2020	2019
Current portion	\$ 139,053	\$ 131,466
Non-current portion	936,444	873,893
Net mortgages receivable	<u>\$ 1,075,497</u>	<u>\$ 1,005,359</u>

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

HABITAT FOR HUMANITY OF WICOMICO COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Notes receivable

Notes receivable are recorded at the gross amount of the payments to be received over the lives of the receivable ranging from three to ten 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, 2020 and 2019, the discount rate was 7.38% and 7.66%, respectively; there were eight and three new notes issued during the years ended June 30, 2020 and 2019, 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.

Notes receivable at June 30, 2020 and 2019 are as follows:

	2020	2019
Notes receivable at face value	\$ 106,176	\$ 35,081
Less unamortized discount	(28,398)	(10,535)
Net notes receivable	<u>\$ 77,778</u>	<u>\$ 24,546</u>

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

	2020	2019
Current portion	\$ 14,226	\$ 5,935
Non-current portion	63,552	18,611
Net notes receivable	<u>\$ 77,778</u>	<u>\$ 24,546</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, 2020 and 2019, the Organization has no uncertain tax positions that qualify for either recognition or disclosure in the financial statements.

HABITAT FOR HUMANITY OF WICOMICO COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2020 and 2019 was \$12,807 and \$26,625, respectively.

Subsequent events

Management has evaluated subsequent events through November 16, 2020, the date the financial statements were available to be issued.

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:

<u>Expense</u>	<u>Method of Allocation</u>
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

HABITAT FOR HUMANITY OF WICOMICO COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

New accounting standards

Habitat for Humanity of Wicomico County, Inc. adopted Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (ASC 606)* with an effective date of July 1, 2019. The Organization's revenues consist mainly of grant income and contributions, which do not fall within the scope of ASC 606. Revenues within the scope of ASC 606 include program income from homeownership education workshops, home sales and ReStore sales, which primarily consists of performance obligations that are satisfied within one year or less.

The adoption of this ASU did not have a significant impact on the Organization's financial statements. The majority of the Organization's revenues consist of a single performance obligation to transfer services or good. Based on the evaluation of its contracts with customers, the timing and amount of revenue recognized previously is consistent with how revenue is recognized under the new standard. No changes were required to previously reported revenues as a result of the adoption.

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, 2020 and 2019, the Organization's deposits did not exceed the FDIC limits.

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, 2020 and 2019, the Organization contributed \$16,883 and \$13,036, respectively, to Habitat International. This title is included under program service expenses in the Statement of Functional Expenses.

HABITAT FOR HUMANITY OF WICOMICO COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

SPECIAL EVENTS

For the years ended June 30, 2020 and 2019 the Organization had several special events. The revenue and expenses for those events were as follows:

	2020			2019		
	Revenue	Expenses	Net	Revenue	Expenses	Net
Chefs for Habitat	\$ 57,664	\$ 20,553	\$ 37,111	\$ 47,909	\$ 21,139	\$ 26,770
Fall Appeal	1,598		1,598			
Giving Tuesday	2,650		2,650			
Other	4,374	1,871	2,503	84	2,913	(2,829)
	<u>\$ 66,286</u>	<u>\$ 22,424</u>	<u>\$ 43,862</u>	<u>\$ 47,993</u>	<u>\$ 24,052</u>	<u>\$ 23,941</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, 2020 and 2019 was \$44,373 and \$50,765, respectively. The balance available to the Organization to draw on (income available for grants) was \$1,382 and \$3,893 as of June 30, 2020 and 2019, respectively. The Organization drew \$4,532 in fiscal year 2020, and drew no funds in fiscal year 2019. Any funds drawn are recognized as contribution income in the Statements 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, 2020 AND 2019

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, 2020 and 2019, escrow deposits and related restricted cash totaled \$51,099 and \$45,330, respectively. The following table provides a reconciliation of cash and restricted cash reported within the statement of financial position that sum to the total of the same such amounts shown in the statement of cash flows for the years ended June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Cash	\$ 263,217	\$ 256,697
Restricted cash included in non-current assets	<u>51,099</u>	<u>45,330</u>
Total cash and restricted cash shown in the statement of cash flows	<u>\$ 314,316</u>	<u>\$ 302,027</u>

LINE OF CREDIT

The Organization obtained a line of credit with Hebron Savings Bank in November 2019 with an available credit of \$150,000 and a 4.75% interest rate. Interest on any borrowing against this line of credit is due the 1st of each month. The balance outstanding as of June 30, 2020 was \$61,992.

PAYCHECK PROTECTION PROGRAM LOAN

In April 2020, the Organization obtained a loan in the amount of \$64,300 with its bank under the U.S. Small Business Administration Paycheck Protection Program (PPP) which was established by the Coronavirus Aid, Relief and Economic Security Act (CARES Act). The loan is eligible for forgiveness pursuant to the terms and conditions of the CARES Act. The portion of the loan that is not forgiven bears interest at 1.00% and is due in monthly payments over a period of two years, as agreed by the Organization and its lender.

The Organization expects to meet the PPP's eligibility criteria and expects forgiveness, and therefore, has elected to account for the loan as a conditional contribution in accordance with FASB ASC 958-605, *Not-for-Profit Entities: Revenue Recognition*. Accordingly, the Organization has recorded the initial receipt in the accompanying statement of financial position as a refundable advance. The contribution will be recognized as revenue when the conditions are substantially met or explicitly waived.

HABITAT FOR HUMANITY OF WICOMICO COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

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, 2020 are as follows:

Year ending June 30,	
2021	\$ 5,308
2022	4,110
	<u>\$ 9,418</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% with a maturity date of August 14, 2039 and monthly payments of principal and interest due in the amount of \$1,773. 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, 2020 are as follows:

Year ending June 30,	
2021	\$ 8,306
2022	8,839
2023	9,287
2024	9,757
2025	10,251
Thereafter	216,502
	<u>\$ 262,942</u>

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 are immediately sold and designated to the program the donor advised.

HABITAT FOR HUMANITY OF WICOMICO COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

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 37 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, 2020 is 7.38% as provided by Habitat International. The real estate holdings are as follows:

908 W. Isabella Street	Office and location of the ReStore Thrift Shop
634 E. Church Street	Transitional housing rental – to become affordable housing in FY21
714 Grace Street	Vacant lot – future site of affordable housing
716 Grace Street	Vacant lot – future site of affordable housing
504 Tangier Street	Transitional housing rental – to become affordable housing in FY21
309 Barclay Street	Vacant lot – currently a community garden
414 Elizabeth Street	Construction in process – to become affordable housing in FY21
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 early FY22
704 S. Westover	Condemned house – to be demolished October 2020, and new home to be built in FY21
319 Martin Street	Condemned house – to be demolished October 2020, and new home to be built in FY21
321 Martin Street	Vacant lot – this will be deeded with 319 Martin 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, 2020 AND 2019

AVAILABILITY AND LIQUIDITY

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

	<u>2020</u>	<u>2019</u>
Financial assets at year end:		
Cash	\$ 314,316	\$ 302,027
Accounts receivable	1,408	1,040
Grants receivable	95,287	20,000
Mortgages and notes receivable	1,153,275	1,029,905
Total financial assets	<u>1,564,286</u>	<u>1,352,972</u>
Less amounts not available to be used for general expenditures:		
Restricted cash for escrow deposits held	51,099	45,330
Net assets with donor restrictions	152,427	90,786
Long-term portion of mortgages and notes receivable	999,996	892,504
	<u>1,203,522</u>	<u>1,028,620</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 360,764</u>	<u>\$ 324,352</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 \$298,000). As part of its liquidity plan, excess cash is invested in short-term investments, including savings or money market accounts at various financial institutions. The Organization also has a \$150,000 line of credit available to meet cash flow needs when necessary.

HABITAT FOR HUMANITY OF WICOMICO COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

NEW ACCOUNTING STANDARDS

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 Statement of Financial Position—the new ASU will require both types of leases to be recognized on the Statement of Financial Position. The new guidance on leases will take effect for the year ending June 30, 2022.

IMPACT OF THE COVID-19 PANDEMIC

In March 2020, the World Health Organization declared the novel coronavirus (COVID-19) outbreak a public health emergency. The public health emergency is still ongoing as of the date of the financial statements. There have been mandates from federal, state, and local authorities requiring forced closures of schools, businesses, and other facilities. The related ongoing financial impact cannot be reasonably estimated at this time.

In response to the declared pandemic, the Organization created short-term, medium-term and long-term plans to address the needs of the Organization and its partner families and homeowners. The following is a brief recap of those plans:

Short-term

1. Ensure safety of staff and customers by ordering masks, additional PPE and stock piling supplies.
2. Install plexiglass barrier at cash wrap and tape floor for social distancing.
3. Fill freezer with donated chicken for staff emergencies.
4. Build revenue and cut expenses (i.e.: Recycle all metal, Cancel and remove dumpster – if ReStore closes, consider temporary layoffs after Paid-time-off is exhausted, move appliances out of front rented warehouse next door to save \$400 a month, no purchased product bidding or ordering.
5. No building improvements unless Covid-19 related.
6. Consider impact to our homeowners and offer a 90-day grace period for mortgage payments from homeowners and no late charges.
7. Communicate no raises for all staff until revenue and outcomes can justify.
8. Encourage telework for non-essential staff.
9. Pause volunteer program.

HABITAT FOR HUMANITY OF WICOMICO COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

IMPACT OF THE COVID-19 PANDEMIC (Continued)

Medium-term

1. Join Lower Shore Vulnerable Population Task force to collaborate via zoom with 200 local agencies and businesses serving low income families.
2. Partner with Wicomico County CDBG to offer rental assistance for people economically affected by Covid-19 (\$500,000 Cares Act Round One grant awarded July 25, 2020).
3. Pivot fundraising to online event. Virtual Fashion show planned for November 20, 2020.
4. Apply for all emergency grants and the SBA PPP loan.
5. Apply for workforce development grants to extend HabiCorps program into 2021-2022.
6. Apply for additional AmeriCorps funding to build capacity in affordable building, rehab and repair programs.
7. Rent out 634 E. Church Street and 312 Martin St. to partner families or HabiCorps members (\$650 monthly gross revenue for each property).
8. Expand days/hours of operation at the ReStore to generate more revenue.

Long-term

1. Determine safe way to bring volunteers back to serve agency.
2. Evaluate other ways to generate unrestricted funds due to cancelation of Chefs for Habitat gala.
3. Document succession planning and implement training if key staff leave the organization.
4. Convert unsecured line of credit to secured line of credit.
5. Refinance building to reduce interest expense.
6. Consider adding transitional housing element to mission to serve homeless families previously incarcerated or AmeriCorps members who receive poverty wage stipend to serve at our agency.