

**HABITAT FOR HUMANITY
OF EAST JEFFERSON COUNTY**

Audited Financial Statements

June 30, 2020 and 2019

HABITAT FOR HUMANITY OF EAST JEFFERSON COUNTY

Audited Financial Statements

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Independent Auditor's Report

Board of Directors
Habitat for Humanity of East Jefferson County
Port Townsend, Washington

Report on the Financial Statements

We have audited the accompanying financial statements of Habitat for Humanity of East Jefferson County (a nonprofit organization) ("Habitat"), 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.

Auditor's Responsibility

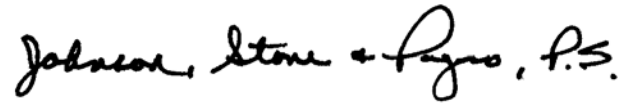
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about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

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 East Jefferson County 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.

A handwritten signature in black ink that reads "Johnson, Stone & Pagano, P.S." in a cursive script.

JOHNSON, STONE & PAGANO, P.S.

September 24, 2020

AUDITED FINANCIAL STATEMENTS

HABITAT FOR HUMANITY OF EAST JEFFERSON COUNTY

STATEMENTS OF FINANCIAL POSITION

June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash	\$ 471,500	\$ 351,063
Accounts and grants receivable	16,700	9,231
Contributions receivable, current portion	41,750	42,250
Inventory held for sale - Furniture and More Stores	58,245	58,951
Inventory - general	9,239	17,249
Prepaid expenses	1,080	
Mortgages receivable, current portion	<u>62,201</u>	<u>62,201</u>
Total Current Assets	660,715	540,945
OTHER ASSETS		
Restricted cash	821,263	773,572
Contributions receivable, net of current portion	39,836	64,500
Mortgages receivable, net of discount and current portion	461,540	489,781
Construction in progress	654,976	611,047
Land held for development	711,131	277,857
Deposits and other	1,599	10,538
Property, furniture and equipment, net	<u>675,553</u>	<u>674,688</u>
Total Other Assets	<u>3,365,898</u>	<u>2,901,983</u>
TOTAL ASSETS	<u>\$ 4,026,613</u>	<u>\$ 3,442,928</u>

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

HABITAT FOR HUMANITY OF EAST JEFFERSON COUNTY

STATEMENTS OF FINANCIAL POSITION (Continued)

June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 13,320	\$ 31,392
Accrued expenses	33,520	28,698
Homeowner reserve accounts	2,503	2,303
Long-term debt, current portion	<u>81,322</u>	<u>22,657</u>
Total Current Liabilities	130,665	85,050
LONG-TERM DEBT , net of debt issuance cost, less current portion	<u>521,565</u>	<u>464,468</u>
Total Liabilities	652,230	549,518
NET ASSETS		
Without donor restrictions - undesignated	2,415,381	1,994,693
Without donor restrictions - board-designated	584,355	584,355
	<u>2,999,736</u>	<u>2,579,048</u>
With donor restrictions	<u>374,647</u>	<u>314,362</u>
Total Net Assets	<u>3,374,383</u>	<u>2,893,410</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 4,026,613</u>	<u>\$ 3,442,928</u>

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

HABITAT FOR HUMANITY OF EAST JEFFERSON COUNTY

STATEMENTS OF ACTIVITIES

Year Ended June 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES AND SUPPORT			
Contributions	\$ 996,199	\$ 179,692	\$ 1,175,891
Grants		13,000	13,000
In-kind contributions	308,612		308,612
Sales to homeowners	1,040,535		1,040,535
NRI home repair revenue	5,842		5,842
Store revenue	248,730		248,730
Other income	1,124		1,124
Mortgage loan discount amortization	36,096		36,096
Interest income	13,102		13,102
Gain on sale of asset	100		100
Net assets released from restrictions	<u>132,407</u>	<u>(132,407)</u>	
Total Revenues and Support	2,782,747	60,285	2,843,032
EXPENSES			
Program expenses	2,137,038		2,137,038
Management and administration	154,273		154,273
Fundraising	<u>70,748</u>		<u>70,748</u>
Total Expenses	<u>2,362,059</u>		<u>2,362,059</u>
INCREASE IN NET ASSETS	420,688	60,285	480,973
Net Assets at Beginning of Year	<u>2,579,048</u>	<u>314,362</u>	<u>2,893,410</u>
NET ASSETS AT END OF YEAR	<u>\$ 2,999,736</u>	<u>\$ 374,647</u>	<u>\$ 3,374,383</u>

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

HABITAT FOR HUMANITY OF EAST JEFFERSON COUNTY

STATEMENTS OF ACTIVITIES (Continued)

Year Ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES AND SUPPORT			
Contributions	\$ 751,726	\$ 153,900	\$ 905,626
Grants	40,849	25,000	65,849
In-kind contributions	417,909		417,909
Sales to homeowners	897,190		897,190
NRI home repair revenue	5,881		5,881
Store revenue	353,706		353,706
Other income	9,744		9,744
Mortgage loan discount amortization	36,096		36,096
Interest income	8,427		8,427
Net assets released from restrictions	144,855	(144,855)	
Total Revenues and Support	2,666,383	34,045	2,700,428
EXPENSES			
Program expenses	2,028,283		2,028,283
Management and administration	152,275		152,275
Fundraising	74,378		74,378
Total Expenses	2,254,936		2,254,936
INCREASE IN NET ASSETS	411,447	34,045	445,492
Net Assets at Beginning of Year	2,167,601	280,317	2,447,918
NET ASSETS AT END OF YEAR	\$ 2,579,048	\$ 314,362	\$ 2,893,410

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

HABITAT FOR HUMANITY OF EAST JEFFERSON COUNTY

STATEMENTS OF FUNCTIONAL EXPENSES

Year Ended June 30, 2020 with Comparative Totals for 2019

	Program Expenses			Supporting Expenses			Total Expenses	
	Program Services	Stores	Total Program Expenses	Management and Administration	Fundraising	Total Supporting Expenses	2020	2019
Program and home building costs	\$ 1,191,356		\$ 1,191,356				\$ 1,191,356	\$ 943,006
Salaries and wages	220,954	\$ 112,181	333,135	\$ 73,744	\$ 36,396	\$ 110,140	443,275	426,289
Payroll taxes and benefits	52,748	24,533	77,281	29,842	8,546	38,388	115,669	115,742
Cost of goods sold		250,856	250,856				250,856	356,869
Professional fees	15,992		15,992	18,718	3,435	22,153	38,145	52,542
Supplies and equipment	16,107	2,258	18,365	1,340	200	1,540	19,905	23,029
Telephone	3,427	3,678	7,105	234	57	291	7,396	6,509
Information technology	7,790	1,844	9,634	5,686	2,638	8,324	17,958	14,835
Postage and shipping	618	71	689	746	629	1,375	2,064	2,080
Facilities	13,596	43,076	56,672	3,195	837	4,032	60,704	55,626
Equipment rental and maintenance	4,362		4,362	443	111	554	4,916	5,324
Printing and publications	4,495	7,285	11,780	1,220	10,045	11,265	23,045	32,355
Travel and vehicle	6,077	4,265	10,342	217	25	242	10,584	13,988
Conferences, conventions and meetings	3,120	17	3,137	25	16	41	3,178	12,635
Volunteers	9,197	5,228	14,425				14,425	38,946
Dues, fees, licenses and permits	5,419	6,059	11,478	685	7,113	7,798	19,276	21,821
Taxes	2,987	1,631	4,618	1,961		1,961	6,579	3,764
Interest	21,879	1,940	23,819	1,493	149	1,642	25,461	26,954
Homeowner services	14,248		14,248				14,248	5,267
Tithes	34,413		34,413				34,413	44,658
Insurance	3,312		3,312	12,815		12,815	16,127	10,402
Community and public relations	9,263	626	9,889		74	74	9,963	14,200
Other expenses								2,216
Depreciation and amortization	18,061	12,069	30,130	1,909	477	2,386	32,516	25,879
Total	\$ 1,659,421	\$ 477,617	\$ 2,137,038	\$ 154,273	\$ 70,748	\$ 225,021	\$ 2,362,059	\$ 2,254,936

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

HABITAT FOR HUMANITY OF EAST JEFFERSON COUNTY

STATEMENTS OF FUNCTIONAL EXPENSES (Continued)

Year Ended June 30, 2019

	Program Expenses			Supporting Expenses			Total Expenses 2019
	Program Services	Stores	Total Program Expenses	Management and Administration	Fundraising	Total Supporting Expenses	
Program and home building costs	\$ 943,006		\$ 943,006				\$ 943,006
Salaries and wages	191,769	\$ 122,285	314,054	\$ 80,875	\$ 31,360	\$ 112,235	426,289
Payroll taxes and benefits	64,110	15,861	79,971	28,007	7,764	35,771	115,742
Cost of goods sold		356,869	356,869				356,869
Professional fees	13,492	15,230	28,722	19,270	4,550	23,820	52,542
Supplies and equipment	17,799	3,078	20,877	902	1,250	2,152	23,029
Telephone	2,326	3,699	6,025	367	117	484	6,509
Information technology	8,670	613	9,283	3,199	2,353	5,552	14,835
Postage and shipping	799	237	1,036	452	592	1,044	2,080
Facilities	11,954	39,474	51,428	3,379	819	4,198	55,626
Equipment rental and maintenance	4,763		4,763	454	107	561	5,324
Printing and publications	10,836	7,151	17,987	668	13,700	14,368	32,355
Travel and vehicle	7,700	5,831	13,531	247	210	457	13,988
Conferences, conventions and meetings	9,902	1,663	11,565	1,052	18	1,070	12,635
Volunteers	33,358	5,539	38,897	49		49	38,946
Dues, fees, licenses and permits	11,805	6,680	18,485		3,336	3,336	21,821
Taxes	661	1,568	2,229	1,535		1,535	3,764
Interest	23,227	2,016	25,243	1,556	155	1,711	26,954
Homeowner services	5,267		5,267				5,267
Tithes	44,658		44,658				44,658
Insurance	2,010		2,010	8,392		8,392	10,402
Community and public relations	4,237	4,600	8,837		5,363	5,363	14,200
Other expenses					2,216	2,216	2,216
Depreciation and amortization	11,862	11,678	23,540	1,871	468	2,339	25,879
Total	\$ 1,424,211	\$ 604,072	\$ 2,028,283	\$ 152,275	\$ 74,378	\$ 226,653	\$ 2,254,936

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

HABITAT FOR HUMANITY OF EAST JEFFERSON COUNTY

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 480,973	\$ 445,492
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Depreciation and amortization	32,516	25,879
Mortgage loan discount amortization	(36,096)	(36,096)
Noncash change of inventory held-for-sale	706	1,949
Net change in operating assets and liabilities	<u>(456,689)</u>	<u>178,652</u>
Net Cash Provided by Operating Activities	21,410	615,876
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from mortgages receivable	64,337	60,804
Purchases of property, furniture and equipment	<u>(33,381)</u>	<u>(138,203)</u>
Net Cash Provided (Used) by Investing Activities	30,956	(77,399)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of long-term debt	(22,438)	(66,050)
Proceeds from long-term debt	<u>138,200</u>	<u></u>
Net Cash Provided (Used) by Financing Activities	<u>115,762</u>	<u>(66,050)</u>
NET INCREASE IN CASH	168,128	472,427
Cash at Beginning of Year	<u>1,124,635</u>	<u>652,208</u>
CASH AT END OF YEAR	<u>\$ 1,292,763</u>	<u>\$ 1,124,635</u>
COMPONENTS OF CASH		
Cash	\$ 471,500	\$ 351,063
Restricted Cash	<u>821,263</u>	<u>773,572</u>
	<u>\$ 1,292,763</u>	<u>\$ 1,124,635</u>

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

HABITAT FOR HUMANITY OF EAST JEFFERSON COUNTY

STATEMENTS OF CASH FLOWS (Continued)

Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
COMPONENTS OF NET CHANGE IN OPERATING ASSETS AND LIABILITIES		
(Increase) decrease in assets		
Accounts and grants receivable	\$ (7,469)	\$ 949
Contributions receivable	25,164	(48,250)
Inventory - general	8,010	4,396
Prepaid expenses	(1,080)	1,225
Construction in progress	(43,929)	14,775
Land held for development	(433,274)	233,180
Deposits and other	8,939	(7,685)
Increase (decrease) in liabilities		
Accounts payable	(18,072)	(24,460)
Accrued expenses	4,822	9,872
Homeowner reserve accounts	200	(5,350)
	<u> </u>	<u> </u>
Net Change in Operating Assets and Liabilities	\$ <u>(456,689)</u>	\$ <u>178,652</u>
 SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	\$ <u>25,461</u>	\$ <u>26,954</u>
 NONCASH INVESTING AND FINANCING ACTIVITIES		
Deed in lieu of foreclosure on mortgages receivable		\$ <u>68,484</u>

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

HABITAT FOR HUMANITY OF EAST JEFFERSON COUNTY

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Habitat for Humanity of East Jefferson County ("Habitat"), a Washington nonprofit organization, was formed in February 1998. It is an affiliate of Habitat for Humanity International, Inc. ("Habitat International"). Although Habitat International assists with information resources, publications and training, Habitat operates independent of Habitat International and a local board of directors is directly responsible for its operations. Seeking to put God's love into action, Habitat brings people together to build homes, communities and hope. The ultimate goal is that everyone in East Jefferson County will have a decent place to live.

Habitat builds and repairs houses using primarily volunteer labor and purchased and donated materials. The houses are sold to qualified homebuyers. Financing is provided by Habitat with non-interest bearing mortgages or USDA 502 subsidized-interest mortgages. Prospective homeowners must have a need for housing, the ability to pay Habitat's mortgage and are required to participate in the construction of the homes. Five homes were sold during each fiscal year ended June 30, 2020 and 2019. In its history, Habitat has built 50 homes, recycled 8, sold 58 and repaired 31.

Habitat owns and operates two Habitat Stores (the "Stores") in Port Townsend and Quilcene, Washington, which accept donations of appliances and household items. The donated items are sold to the public and store proceeds support house construction and overhead expenses of Habitat.

Basis of Accounting

The financial statements of Habitat have been prepared on the accrual basis of accounting and, accordingly, reflect significant receivables, payables and other liabilities.

Basis of Presentation

Habitat reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Net Assets without Donor Restrictions

Net assets that are not subject to donor-imposed stipulations.

Net Assets with Donor Restrictions

Net assets subject to donor-imposed stipulations that can be fulfilled by actions of Habitat pursuant to those stipulations or that expire by the passage of time and net assets subject to donor-imposed stipulations that they be maintained permanently. Habitat did not have any net assets restricted to be maintained permanently at June 30, 2020 or 2019.

Cash

Cash consists of checking, savings and money market accounts.

HABITAT FOR HUMANITY OF EAST JEFFERSON COUNTY

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions and Promises to Give

Contributions to be received after one year are discounted if material at an appropriate discount rate using the U.S. Treasury rates corresponding to the period in which the contribution is to be received. An allowance for uncollectible contributions is not determined to be necessary based primarily upon prior collection history.

Inventory Held for Sale - Furniture and More Stores

Habitat Stores (the "Stores") inventory includes furniture, household items and other materials used for resale and operations at the Stores. The value of donated inventory items is determined by management using net sales of the year, based on an estimated inventory turnover rate of four-and-a-quarter and six times annually for the fiscal years ended June 30, 2020 and 2019, respectively. Inventory held for sale was estimated to be \$58,245 and \$58,951 at June 30, 2020 and 2019, respectively.

Inventory - General

Inventory is valued at the lower of cost (determined on a first-in, first-out basis) or net realizable value. Inventory consists of construction materials. Donated inventory is recorded at its estimated fair value on the date of receipt.

Property, Furniture and Equipment

Assets are carried at cost, if purchased, or fair value at the time of donation, if donated. It is Habitat's policy to capitalize property and equipment over \$2,500 that has a useful life greater than one year. Depreciation is computed using the straight-line method over the estimated useful lives of assets, ranging from 5 to 39 years.

Construction in Progress and Land Held for Development

Construction in Progress

Costs of construction in progress consist of a budgeted amount for the land transferred from land held for development to the construction account and direct home construction costs, unless it is determined to be impaired. In the event the construction in progress is determined to be impaired, it is written down to fair value. Habitat reviews construction in progress for impairment during each reporting period on a lot-by-lot basis. Accounting principles generally accepted in the United States of America require that if the undiscounted cash flows expected to be generated by an asset are less than its carrying amount, an impairment charge should be recorded to write down the carrying amount of such asset to its fair value.

HABITAT FOR HUMANITY OF EAST JEFFERSON COUNTY

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Construction in Progress and Land Held for Development (Continued)

Land Held for Development

Land purchased for homes is recorded at cost unless it is determined to be impaired, in which case the impaired land is written down to fair value. Donated land is recorded at the property's fair value. All related carrying costs for these properties, such as maintenance, any assessments and real estate taxes, are capitalized into the cost of the properties. Habitat reviews land for impairment during each reporting period on a lot-by-lot basis. Accounting principles generally accepted in the United States of America require that if the undiscounted cash flows expected to be generated by an asset are less than its carrying amount, an impairment charge should be recorded to write down the carrying amount of such asset to its fair value.

Fair Value Measurements

Habitat provides information regarding the inputs that underlie a fair value measurement of financial instruments. The three levels of inputs essentially distinguish the relative reliability of inputs to fair value measurements. Level 1 inputs are more reliable and objective than Level 2 inputs, which are in turn more reliable and objective than Level 3 inputs. In arriving at a fair value measure, Habitat is required to determine the level in the fair value hierarchy within which a fair value measurement ultimately falls and provide disclosure of such determinations.

Restricted and Unrestricted Revenue

Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restriction expires in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases to net assets with donor restrictions, depending on the nature of the restriction. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and are reported in the statement of activities as net assets released from restrictions.

Donated Services

Habitat receives significant donated services from unpaid volunteers who assist in operating the Stores, home building, operational support, family selection, fundraising and administrative tasks. Donated services are recorded at fair value if they create or enhance non-financial assets or if they consist of specialized skills that would have to be purchased if they were not donated. Management estimates the fair value of construction, stores and office volunteer services to be approximately \$145,900, \$255,900 and \$64,700, respectively, for the year ended June 30, 2020 and \$203,800, \$344,500 and \$83,300, respectively, for the year ended June 30, 2019. These volunteer services were not recorded in the financial statements since they did not meet the requirements for recognition.

HABITAT FOR HUMANITY OF EAST JEFFERSON COUNTY

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Functional Allocation of Expenses

The costs of program and supporting services have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Impairment Loss

For assets to be held and used, accounting principles generally accepted in the United States of America require the recognition of an impairment loss whenever events or changes in circumstances have indicated that an asset may be impaired and the future cash flows from that asset are less than the asset's carrying amount. The impairment loss is measured as the difference between the asset's carrying amount and its fair value.

There was no impairment loss recognized for the years ended June 30, 2020 and 2019.

Advertising

Habitat expenses advertising costs as they are incurred. Advertising costs totaled \$8,542 and \$9,681 for the years ended June 30, 2020 and 2019, respectively, and are included in printing and publication expense in the statement of functional expenses.

Income Tax Status

Habitat for Humanity of East Jefferson County is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code.

Habitat's management evaluates tax positions taken by Habitat and recognizes a tax liability (or asset) if Habitat has taken an uncertain position that more likely than not would be sustained upon examination by the Internal Revenue Service. Habitat is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

Equity Agreements

Completed homes are sold at fair value to qualified homeowners. A first mortgage is written for the portion affordable to the purchaser according to federal guidelines. Habitat obtains a deed of trust for any difference between the purchase price (i.e. the current fair value) and the amount of the first mortgage. A second equity agreement (the shared appreciation agreement) reflects the difference between the fair value and the total development costs if greater than the fair value. A portion is recaptured at the time of title transfer based upon future appreciation. The equity agreements are not reflected in the financial statements.

HABITAT FOR HUMANITY OF EAST JEFFERSON COUNTY

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 the 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. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events

The management of Habitat has evaluated subsequent events and transactions for potential recognition and disclosure through September 24, 2020, the date the statements were available to be issued.

NOTE 2 - LIQUIDITY AND AVAILABILITY

Financial assets available for expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following at June 30:

	<u>2020</u>	<u>2019</u>
Cash	\$ 471,500	\$ 351,063
Restricted cash	821,263	773,572
Accounts and grants receivable	16,700	9,231
Contributions receivable	41,750	42,250
Mortgages receivable - current portion	<u>62,201</u>	<u>62,201</u>
Total Financial Assets Available	1,413,414	1,238,317
Less financial assets not available for general expenditures		
Restricted cash - escrow	(4,000)	(3,741)
Restricted cash - other		(364)
Board-designated funds	(584,355)	(584,355)
Purpose restrictions	<u>(270,559)</u>	<u>(185,112)</u>
Financial Assets Available to Meet Cash Needs for General Expenditures within One Year	\$ <u>554,500</u>	\$ <u>464,745</u>

HABITAT FOR HUMANITY OF EAST JEFFERSON COUNTY

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

NOTE 2 - LIQUIDITY AND AVAILABILITY (Continued)

Habitat also has a \$200,000 line of credit available to draw upon for operating cash management purposes.

Although Habitat does not intend to spend from board-designated net assets, these amounts could be made available, if necessary.

As part of Habitat's liquidity management plan, cash in excess of daily requirements is invested in certificates of deposit and savings accounts.

NOTE 3 - CONCENTRATION OF CREDIT RISK

Habitat maintains cash and money market balances at several financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. Habitat has cash balances on deposit with financial institutions, which may at times exceed insured limits. Habitat has not experienced any losses in such accounts.

Habitat provides mortgage assistance primarily to low and very low income buyers. Mortgages receivable with an undiscounted balance of \$1,187,856 and \$1,252,193 at June 30, 2020 and 2019, respectively, are secured by the property purchased.

NOTE 4 - CONTRIBUTIONS RECEIVABLE

Contributions receivable consist of the following at June 30:

	<u>2020</u>	<u>2019</u>
Unconditional promises expected to be collected in		
Less than one year	\$ 41,750	\$ 42,250
One year to five years	<u>39,836</u>	<u>64,500</u>
	<u>\$ 81,586</u>	<u>\$ 106,750</u>

Amortization of discounts on contributions receivable was not material for the years ended June 30, 2020 or 2019. Habitat considers all pledges receivable to be fully collectible and, consequently, has made no allowance for uncollectible contributions.

A current board member has an outstanding pledge receivable in the amount of \$12,500 and \$17,500 at June 30, 2020 and 2019, respectively, which will be paid in semiannual increments of \$5,000 through 2023.

HABITAT FOR HUMANITY OF EAST JEFFERSON COUNTY

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

NOTE 5 - PROPERTY, FURNITURE AND EQUIPMENT

Property, furniture and equipment consisted of the following at June 30:

	<u>2020</u>	<u>2019</u>
Land	\$ 345,788	\$ 345,788
Buildings and improvements	470,623	453,989
Furnishings and equipment	<u>128,304</u>	<u>119,416</u>
	944,715	919,193
Less accumulated depreciation	<u>269,162</u>	<u>244,505</u>
	\$ <u>675,553</u>	\$ <u>674,688</u>

Depreciation expense for the years ended June 30, 2020 and 2019 was \$32,516 and \$25,879, respectively.

NOTE 6 - MORTGAGES RECEIVABLE

Habitat holds 16 non-interest bearing mortgages, which are secured by sold homes at June 30, 2020. Accounting principles generally accepted in the United States of America require that interest be imputed on below-market interest instruments. The effect is to discount each note with an offsetting charge to mortgage discounts. The discount is then amortized over the life of each note as interest income. The resulting carrying value of the mortgages receivable approximates fair value. The notes are due upon the earlier of the sale of the home, refinance or at maturity.

Uncollectible notes are expected to be insignificant. Accordingly, no provision for doubtful accounts has been included in the financial statements. The notes have been discounted at rates of 5.00% to 8.48%, according to rates established by Habitat's finance committee.

Mortgages receivable consisted of the following at June 30:

	<u>2020</u>	<u>2019</u>
Face value	\$ 1,187,856	\$ 1,252,193
Less discount	<u>664,115</u>	<u>700,211</u>
	\$ <u>523,741</u>	\$ <u>551,982</u>

There was no mortgage discount expense recognized either in the year ended June 30, 2020 or 2019.

HABITAT FOR HUMANITY OF EAST JEFFERSON COUNTY

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

NOTE 7 - CONSTRUCTION IN PROGRESS

Habitat is in the process of building homes to provide additional affordable housing. The costs are being funded by contributions, mortgage payments by homeowners and Store sales.

NOTE 8 - LAND HELD FOR DEVELOPMENT

Land held for development consists of 11 buildable lots, 14 undeveloped lots in need of infrastructure and 2 buildable lots restricted for development at June 30, 2020. Land held for development at June 30, 2019 consisted of 10 buildable lots and 2 buildable lots restricted for development.

Subsequent to June 30, 2020, Habitat entered into purchase and sale agreements to purchase two parcels of land at a cost of \$165,000 and \$180,000, respectively. Both parcels are intended to be used for future developments.

NOTE 9 - FAIR VALUE DISCLOSURES

Assets valued using Level 1 inputs are based on unadjusted quoted market prices within active markets. Assets valued using Level 2 inputs are based primarily on quoted prices for similar assets in active or inactive markets. Level 3 inputs are based on Habitat's own assumptions on how knowledgeable parties would price assets or liabilities, and are developed using the best information available in the circumstances.

The assets measured at fair value on a nonrecurring basis as of June 30, 2020 and 2019 consisted of land held for development totaling \$711,131 and \$277,857, respectively. The fair value measurements were valued using level 2 inputs.

NOTE 10 - LINE OF CREDIT

Habitat has an agreement for a \$200,000 line of credit with an interest rate of 6.00% that matures on February 13, 2021. The line is secured by promissory notes and deeds of trust held and pledged by the borrower. There was no balance at June 30, 2020 and 2019. Habitat's line of credit agreement contains a covenant that Habitat maintain a certain debt service coverage ratio. At June 30, 2020, Habitat met the required ratio.

HABITAT FOR HUMANITY OF EAST JEFFERSON COUNTY

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

NOTE 11 - LONG-TERM DEBT

Long-term debt consists of the following:

	<u>2020</u>	<u>2019</u>
Note payable to First Federal Savings, monthly payments of \$2,317, including interest at 4.875%, matures June 2025, secured by property.	\$ 294,079	\$ 306,959
Note payable to First Federal Savings, monthly payments of \$1,435, including interest at 4.750%, matures September 2022, secured by property.	170,608	180,166
Note payable to First Federal Savings, monthly payments of \$7,365 beginning in November 2020, including interest at 1%, due May 2022 to the extent the loan is not forgiven under the Paycheck Protection Program (Note 19).	<u>138,200</u> 602,887	<u>487,125</u>
Less amount due within one year classified as a current liability	<u>81,322</u>	<u>22,657</u>
	\$ <u>521,565</u>	\$ <u>464,468</u>

Maturities of long-term debt for each of the next five years and thereafter are as follows:

2021	\$ 81,322
2022	255,322
2023	14,982
2024	15,707
2025	<u>235,554</u>
	\$ <u>602,887</u>

NOTE 12 - NET ASSETS WITH DONOR RESTRICTIONS

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

	<u>2020</u>	<u>2019</u>
Purpose restrictions		
House construction projects	\$ 176,028	\$ 100,719
Land Bank	80,000	80,000
Other land	22,500	22,500

HABITAT FOR HUMANITY OF EAST JEFFERSON COUNTY

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

NOTE 12 - NET ASSETS WITH DONOR RESTRICTIONS (Continued)

	<u>2020</u>	<u>2019</u>
Training grant	\$ 1,533	\$ 4,393
Americorp	<u>13,000</u>	<u>207,612</u>
	293,061	
Time restrictions		
Pledges from individuals	<u>81,586</u>	<u>106,750</u>
	\$ <u>374,647</u>	\$ <u>314,362</u>

NOTE 13 - CONTRIBUTED GOODS AND SERVICES

Contributed goods and services consisted of the following:

	<u>2020</u>	<u>2019</u>
Rent	\$ 11,200	\$ 10,200
Construction materials	20,937	32,562
Habitat Store merchandise	241,626	343,441
Professional services	<u>34,849</u>	<u>31,706</u>
	\$ <u>308,612</u>	\$ <u>417,909</u>

NOTE 14 - RESTRICTED CASH

Some cash is restricted for program use in compliance with certain loan requirements or deposits from participating homebuyers, and for future land purchases, and cannot be used for general operations. The aggregate balance of this restricted cash was \$821,263 and \$773,572, for the years ended June 30, 2020 and 2019, respectively.

NOTE 15 - OPERATING LEASE AGREEMENT

Habitat leases real property from a former board member for the Habitat Store in Quilcene. The current lease was renewed in June 2020 and will expire June 30, 2021. The monthly lease payments are \$800 per month. The rent is less than fair value for the property, which is computed to be \$1,600 per month. The difference is recorded as an in-kind contribution.

HABITAT FOR HUMANITY OF EAST JEFFERSON COUNTY

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

NOTE 15 - OPERATING LEASE AGREEMENT (Continued)

In addition to the base rent, Habitat pays an annual rental amounts to the lessor. Rental payments to the former board member, including the annual deposit, were \$8,000 and \$9,000 in 2020 and 2019, respectively.

In November 2017, Habitat entered into an operating lease for equipment under a noncancelable lease that expires in 2022. Monthly lease payments of \$145 are included in the printing and publications category on the 2020 and 2019 statements of functional expenses.

Minimum annual payments under lease agreements for future years ending June 30 are as follows:

2021	\$ 11,340
2022	1,740
2023	<u>725</u>
Total Minimum Lease Payments	\$ <u>13,805</u>

Total rental expense for the years ending June 30, 2020 and 2019 was \$24,116 and \$21,375, respectively.

NOTE 16 - RETIREMENT

Habitat has a defined contribution plan that covers all employees who have completed one year of service. Habitat may contribute discretionary profit sharing contributions. For the years ended June 30, 2020 and 2019, Habitat contributed \$20,328 and \$18,434, respectively, into the plan.

NOTE 17 - BOARD-DESIGNATED NET ASSETS

The Board of Directors designated \$584,355 at June 30, 2020 and 2019, in net assets without donor restrictions to be exclusively used for acquisition and development of buildable land known as the Land Bank and future capital expansion and repairs of its office building.

NOTE 18 - FUNCTIONALIZED EXPENSES

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include facilities, telephone, equipment rental and maintenance and insurance, which are allocated on a square footage basis, as well as salaries and wages, payroll taxes and benefits, supplies and equipment, professional fees, information technology, printing and publications, travel and vehicle and other, which are allocated on the basis of estimates of time and effort.

HABITAT FOR HUMANITY OF EAST JEFFERSON COUNTY

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

NOTE 19 - RISKS, UNCERTAINTIES AND COMMITMENTS

Amounts received from grantor agencies are subject to audit and adjustments by the grantor agency. Any disallowed cost, including amounts already collected, may constitute a liability for Habitat. The amounts, if any, of expenditures that may be disallowed by the grantor are recorded at the time that such amounts can be reasonably determined, normally upon notification of the government agency. There were no adjustments for the years ended June 30, 2020 or 2019.

As of June 30, 2020, the world was in the midst of the COVID-19 pandemic. Habitat was negatively affected by the effects of the pandemic as of the date of the statement of financial position. Significant uncertainty remains regarding the wide ranging effects of the pandemic subsequent to year-end. Habitat is closely monitoring its operations, liquidity, capital and financial resources, and is actively working to minimize the current and future effects of this unprecedented situation. As of the date of issuance of these financial statements, the full impact of the pandemic to Habitat's financial position or operations is not known.

In May 2020, Habitat received loan proceeds in the amount of \$138,200, under the Paycheck Protection Program ("PPP"). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act and later modified by the PPP Flexibility Act, provides for loans to qualifying organizations for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying organization. The loans and accrued interest are forgivable as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities during the twenty-four weeks commencing from the date Habitat received loan proceeds or through December 31, 2020, whichever period is shorter (the "covered period"). The amount of loan forgiveness will be reduced if the borrower terminates employees or reduces salaries during the covered period.

Habitat has ten months from the end of the covered period to apply for loan forgiveness. The unforgiven portion of the PPP loan, if any, is payable over two years at an interest rate of 1% beginning at the end of the ten months. Habitat intends to use the proceeds for purposes consistent with the PPP. While Habitat currently believes that its use of the loan proceeds will meet the conditions for forgiveness of the loan, the total amount of loan forgiveness is not known as of the date of these financial statements.