

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

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2021 AND 2020

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

TABLE OF CONTENTS

	<u>Page(s)</u>
INDEPENDENT AUDITOR'S 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



INDEPENDENT AUDITOR'S REPORT

ANDREW M. HAYNIE, CPA
SUSAN P. KEEN, CPA
MICHAEL C. KLEGER, CPA
JAMES D. MAYBURY, CPA
E. LEE McCABE, CPA
JEFFREY A. MICHALIK, CPA
ROBERT L. MOORE, CPA
DANIEL M. O'CONNELL II, CPA
ASHLEY M. STERN, CPA
JOHN M. STERN, JR., CPA

PKScpa.com

Salisbury

1801 SWEETBAY DRIVE
P.O. Box 72
SALISBURY, MD 21803
TEL: 410.546.5600
FAX: 410.548.9576

Ocean City

12216 OCEAN GATEWAY
SUITE 800
OCEAN CITY, MD 21842
TEL: 410.213.7185
FAX: 410.213.7638

Lewes

1143 SAVANNAH ROAD
SUITE 1
P.O. Box 192
LEWES, DE 19958
TEL: 302.645.5757
FAX: 302.645.1757

MEMBERS OF:

AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

MARYLAND ASSOCIATION OF
CERTIFIED PUBLIC ACCOUNTANTS

DELAWARE SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

ALLINIAL 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, 2021 and 2020, 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 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.

Auditor's 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, 2021 and 2020, 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.

PKS & Company, P.A.
CERTIFIED PUBLIC ACCOUNTANTS

Salisbury, Maryland
December 13, 2021

HABITAT FOR HUMANITY OF WICOMICO COUNTY, INC.

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2021 AND 2020

ASSETS

	<u>2021</u>	<u>2020</u>
CURRENT ASSETS		
Cash	\$ 375,832	\$ 263,217
Accounts receivable	878	1,408
Grants receivable	67,852	95,287
Prepaid expenses	6,548	8,355
ReStore inventory	90,726	70,525
Construction in progress	251,575	318,060
Current portion of notes receivable	25,990	14,226
Current portion of mortgages receivable	157,367	139,053
Security deposit	700	
Total current assets	<u>977,468</u>	<u>910,131</u>
NON-CURRENT ASSETS		
Cash - restricted	52,448	51,099
Land and buildings held for development	381,935	340,942
Notes receivable, net of discount and current portion	128,157	63,552
Mortgages receivable, net of discount and current portion	1,004,283	936,444
Property and equipment, net	361,727	383,869
Total non-current assets	<u>1,928,550</u>	<u>1,775,906</u>
Total assets	<u>\$ 2,906,018</u>	<u>\$ 2,686,037</u>

LIABILITIES AND NET ASSETS

	2021	2020
CURRENT LIABILITIES		
Current portion of note payable and long-term debt	\$ 14,312	\$ 13,614
Accounts payable	38,794	42,989
Line of credit	2,041	61,992
Accrued payroll and related expenses	32,251	21,803
Sales tax payable	7,836	6,814
Homeowner deposits	900	
Total current liabilities	96,134	147,212
NON-CURRENT LIABILITIES		
Escrow deposits	52,448	51,099
Refundable advance - Paycheck Protection Program		64,300
Note payable less current portion		4,110
Long-term debt less current portion	310,945	254,636
Total non-current liabilities	363,393	374,145
Total liabilities	459,527	521,357
NET ASSETS		
Without donor restrictions		
Operating	2,258,199	1,900,744
Investment in fixed assets, net of related debt	36,470	111,509
	2,294,669	2,012,253
With donor restrictions	151,822	152,427
Total net assets	2,446,491	2,164,680
Total liabilities and net assets	\$ 2,906,018	\$ 2,686,037

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, 2021 AND 2020

	2021		Total
	Without Donor Restrictions	With Donor Restrictions	
PUBLIC SUPPORT AND REVENUES			
Contributions	\$ 92,332	\$ 61,073	\$ 153,405
Grants	1,096,903		1,096,903
ReStore revenues	544,749		544,749
Less: cost of goods sold	(573,027)		(573,027)
ReStore donations - in kind	564,556		564,556
Other donations - in kind	149,340		149,340
Sales to homeowners	310,000		310,000
Neighborhood revitalization income		117,544	117,544
Mortgage and note interest income	77,331		77,331
Other program income	1,911		1,911
Rental income	14,353		14,353
Special events income, net	17,673		17,673
Interest income	113		113
Recycling income	3,132		3,132
Miscellaneous income	571		571
Paycheck Protection Program	64,300		64,300
Net assets released from restrictions	179,222	(179,222)	
Total public support and revenues	<u>2,543,459</u>	<u>(605)</u>	<u>2,542,854</u>
EXPENSES			
Program services			
Housing and other services	1,721,643		1,721,643
ReStore expenses	366,717		366,717
Supporting services			
Management and general	122,387		122,387
Fundraising	50,296		50,296
Total expenses	<u>2,261,043</u>		<u>2,261,043</u>
Change in net assets	282,416	(605)	281,811
NET ASSETS, BEGINNING OF YEAR	<u>2,012,253</u>	<u>152,427</u>	<u>2,164,680</u>
NET ASSETS, END OF YEAR	<u><u>\$ 2,294,669</u></u>	<u><u>\$ 151,822</u></u>	<u><u>\$ 2,446,491</u></u>

	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 and dividend 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><u>\$ 2,012,253</u></u>	<u><u>\$ 152,427</u></u>	<u><u>\$ 2,164,680</u></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, 2021 AND 2020

EXPENSES	2021						
	Program Services			Supporting Services			
	Housing and Other Services	ReStore Expenses	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total
Salaries	\$ 276,715	\$ 240,495	\$ 517,210	\$ 63,745	\$ 26,702	\$ 90,447	\$ 607,657
Employee benefits	2,444	2,506	4,950	1,536	988	2,524	7,474
Payroll taxes	14,122	14,515	28,637	5,102	2,069	7,171	35,808
Construction and land costs	440,397		440,397				440,397
Mortgage and note discount	214,345		214,345				214,345
Cost of goods sold		573,027	573,027				573,027
Rental property expense	750		750				750
Professional fees				11,750		11,750	11,750
Legal fees				4,257		4,257	4,257
International tithes	25,067		25,067				25,067
Supplies	2,177	9,458	11,635	4,246	4,106	8,352	19,987
Telephone	2,502	4,404	6,906	1,701	1,401	3,102	10,008
Interest	4,313	10,135	14,448	825	825	1,650	16,098
Postage and shipping	1,213		1,213	869	1,287	2,156	3,369
Equipment	2,553	5,436	7,989	5,835	2,460	8,295	16,284
Printing and publications	40		40		3,510	3,510	3,550
Travel							
Meetings	4,508	950	5,458	691	321	1,012	6,470
Dues and subscriptions	338		338	10,159	279	10,438	10,776
Advertising	302	11,038	11,340	300	2,426	2,726	14,066
Taxes	6,193	3,343	9,536	638	338	976	10,512
Training	15,350		15,350	2,816	2,889	5,705	21,055
Depreciation		19,711	19,711	2,431		2,431	22,142
Insurance	17,943	4,792	22,735	2,756		2,756	25,491
Mission costs	469	4,442	4,911				4,911
Occupancy expenses	6,467	16,515	22,982	1,136	687	1,823	24,805
Other expenses	2,228	8,641	10,869	1,594	8	1,602	12,471
Direct special event expenses					2,910	2,910	2,910
Vehicles		10,336	10,336				10,336
Emergency rental assistance program	681,207		681,207				681,207
Total expenses by function	<u>1,721,643</u>	<u>939,744</u>	<u>2,661,387</u>	<u>122,387</u>	<u>53,206</u>	<u>175,593</u>	<u>2,836,980</u>
Less cost of goods sold		(573,027)	(573,027)				(573,027)
Less direct expenses for special events					(2,910)	(2,910)	(2,910)
Total expenses as presented on the Statements of Activities	<u>\$ 1,721,643</u>	<u>\$ 366,717</u>	<u>\$ 2,088,360</u>	<u>\$ 122,387</u>	<u>\$ 50,296</u>	<u>\$ 172,683</u>	<u>\$ 2,261,043</u>

	2020						
	Program Services			Supporting Services			
	Housing and Other Services	ReStore Expenses	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total
EXPENSES							
Salaries	\$ 226,639	\$ 164,213	\$ 390,852	\$ 63,966	\$ 26,636	\$ 90,602	\$ 481,454
Employee benefits	1,591	626	2,217	2,582	1,309	3,891	6,108
Payroll taxes	9,948	11,924	21,872	4,826	1,990	6,816	28,688
Construction and land costs	403,064		403,064				403,064
Mortgage and note discount	202,041		202,041				202,041
Cost of goods sold		449,302	449,302				449,302
Rental property expense	120		120				120
Professional fees				11,750		11,750	11,750
International tithe	16,883		16,883				16,883
Supplies	2,004	7,836	9,840	3,548	3,348	6,896	16,736
Telephone	1,824	3,648	5,472	912	912	1,824	7,296
Interest	2,971	10,280	13,251	832	832	1,664	14,915
Postage and shipping	327		327	653	1,385	2,038	2,365
Equipment	4,097	2,649	6,746	7,712	3,102	10,814	17,560
Printing and publications					3,755	3,755	3,755
Travel		119	119		22	22	141
Meetings	1,127	709	1,836	580	259	839	2,675
Dues and subscriptions	450	2,400	2,850	8,869	43	8,912	11,762
Advertising	451	10,290	10,741	331	1,735	2,066	12,807
Taxes	6,197	3,351	9,548	729	354	1,083	10,631
Training	10,461		10,461	639	193	832	11,293
Depreciation		19,615	19,615	2,970		2,970	22,585
Insurance	16,008	4,206	20,214	2,600		2,600	22,814
Mission costs	905	5,281	6,186				6,186
Occupancy expenses	3,757	21,204	24,961	1,656	770	2,426	27,387
Other expenses	129	6,036	6,165	1,645		1,645	7,810
Direct special event expenses					22,424	22,424	22,424
Vehicles		8,424	8,424				8,424
Licenses	455		455				455
Total expenses by function	911,449	732,113	1,643,562	116,800	69,069	185,869	1,829,431
Less cost of goods sold		(449,302)	(449,302)				(449,302)
Less direct expenses for special events					(22,424)	(22,424)	(22,424)
Total expenses as presented on the Statements of Activities	\$ 911,449	\$ 282,811	\$ 1,194,260	\$ 116,800	\$ 46,645	\$ 163,445	\$ 1,357,705

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, 2021 AND 2020

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 281,811	\$ 49,611
Adjustment to reconcile change in net assets to net cash used by operating activities:		
Depreciation	22,142	22,585
Mortgage and note discount	214,345	202,041
Conditions met on conditional loan	(64,300)	
Change in operating assets and liabilities:		
Decrease (increase) in operating assets:		
Accounts receivable	530	(368)
Grants receivable	27,435	(75,287)
Prepaid expenses	1,807	3,564
ReStore inventory	(20,201)	(4,059)
Land and buildings held for development	(40,993)	46,497
Construction in progress	66,485	(21,891)
Security deposit	(700)	
Notes receivable	(112,112)	(73,550)
Mortgages receivable	(264,755)	(251,861)
Increase (decrease) in operating liabilities:		
Accounts payable	(4,195)	9,189
Accrued payroll and related expenses	10,448	(3,014)
Sales tax payable	1,022	983
Homeowner deposits	900	
Escrow deposits	1,349	5,769
Refundable advance		(1,000)
Net cash provided (used) by operating activities	121,018	(90,791)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment		(10,000)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Gross proceeds from line of credit	2,041	62,000
Gross payments on line of credit		(8)
Gross payments on long-term debt	(9,095)	(13,212)
Refundable advance received		64,300
Net cash provided (used) by financing activities	(7,054)	113,080
Net increase in cash	113,964	12,289
CASH, BEGINNING OF YEAR	314,316	302,027
CASH, END OF YEAR	\$ 428,280	\$ 314,316
SUPPLEMENTARY INFORMATION		
Cash paid for interest	\$ 16,098	\$ 14,915

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

HABITAT FOR HUMANITY OF WICOMICO COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

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, 2021 AND 2020

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, 2021 AND 2020

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and equipment (continued)

Cost, depreciation and accumulated depreciation at June 30, 2021 are as follows:

	Cost	Current Depreciation	Accumulated Depreciation
Land	\$ 74,000	\$	\$
Building	295,778	9,859	118,315
Building improvements	139,171	6,312	51,662
Furniture and equipment	27,030	1,465	25,267
Vehicles	50,105	4,506	29,113
	<u>\$ 586,084</u>	<u>\$ 22,142</u>	<u>\$ 224,357</u>

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>

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, 2021 AND 2020

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

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 performance obligations that are satisfied within one year or less.

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 7.23% to 9% from 1996 to 2021. For the year ended June 30, 2021 and 2020, mortgage discount rates were 7.23% and 7.38%, respectively; there were two new mortgages issued in each of the years ending June 30, 2021 and 2020. 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, 2021 and 2020 are as follows:

	2021	2020
Mortgages receivable at face value	\$ 2,742,245	\$ 2,544,932
Less unamortized discount	(1,580,595)	(1,469,435)
Net mortgage receivable	<u>\$ 1,161,650</u>	<u>\$ 1,075,497</u>

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

	2021	2020
Current portion	\$ 157,367	\$ 139,053
Non-current portion	1,004,283	936,444
Net mortgages receivable	<u>\$ 1,161,650</u>	<u>\$ 1,075,497</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, 2021 AND 2020

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, 2021 and 2020, the discount rate was 7.23% and 7.38%, respectively; there were eight new notes issued in each of the years ended June 30, 2021 and 2020. 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, 2021 and 2020 are as follows:

	2021	2020
Notes receivable at face value	\$ 208,398	\$ 106,176
Less unamortized discount	(54,251)	(28,398)
Net notes receivable	<u>\$ 154,147</u>	<u>\$ 77,778</u>

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

	2021	2020
Current portion	\$ 25,990	\$ 14,226
Non-current portion	128,157	63,552
Net notes receivable	<u>\$ 154,147</u>	<u>\$ 77,778</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, 2021 and 2020, 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, 2021 AND 2020

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, 2021 and 2020 was \$14,066 and \$12,807, respectively.

Subsequent events

Management has evaluated subsequent events through December 13, 2021, 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, 2021 AND 2020

CASH

The Organization has concentrated its credit risk for cash by maintaining deposits in several 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. The Organization's cash balances in excess of this limit were \$697 as of June 30, 2021. The Organization's cash balances did not exceed this limit as of June 30, 2020.

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, 2021 and 2020, the Organization contributed \$25,067 and \$16,883, respectively, to Habitat International. This tithe is included under program service expenses in the Statement of Functional Expenses.

SPECIAL EVENTS

For the years ended June 30, 2021 and 2020 the Organization had several special events. The revenue and expenses for those events were as follows:

	2021			2020		
	Revenue	Expenses	Net	Revenue	Expenses	Net
Chefs for Habitat	\$ 300	\$ 6	\$ 294	\$ 57,664	\$ 20,553	\$ 37,111
5K Run	2,503	493	2,010			
Fall Appeal		736	(736)	1,598		1,598
Giving Tuesday	1,000		1,000	2,650		2,650
High Heels & Hard Hats	12,710	1,030	11,680			
Other	4,070	645	3,425	4,374	1,871	2,503
	<u>\$ 20,583</u>	<u>\$ 2,910</u>	<u>\$ 17,673</u>	<u>\$ 66,286</u>	<u>\$ 22,424</u>	<u>\$ 43,862</u>

HABITAT FOR HUMANITY OF WICOMICO COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

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, 2021 and 2020 was \$61,014 and \$44,373, respectively. The balance available to the Organization to draw on (income available for grants) was \$3,844 and \$1,382 as of June 30, 2021 and 2020, respectively. The Organization didn't draw any grants in fiscal year 2021, and drew \$4,532 in fiscal year 2020. 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.

ESCROW DEPOSITS/RESTRICTED CASH

Escrow deposits are the amounts held on behalf of a local organization for short-term repair projects 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, 2021 and 2020, escrow deposits and related restricted cash totaled \$52,448 and \$51,099, 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 Statements of Cash Flows for the years ended June 30, 2021 and 2020:

	2021	2020
Cash	\$ 375,832	\$ 263,217
Restricted cash included in non-current assets	52,448	51,099
Total cash and restricted cash shown in the Statements of Cash Flows	<u>\$ 428,280</u>	<u>\$ 314,316</u>

HABITAT FOR HUMANITY OF WICOMICO COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

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. This line of credit was paid off in full in May 2021. The Organization obtained a new line of credit with Hebron Savings Bank in May 2021 with an available credit of \$54,000 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, 2021 was \$2,041.

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 applied for and was awarded forgiveness in February 2021 of \$64,300, principal plus unpaid interest, with respect to these covered expenses. The Organization has recognized the amount as grant income for the year ended June 30, 2021.

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, 2021 are as follows:

Year ending June 30,	
2022	<u>\$ 4,104</u>

HABITAT FOR HUMANITY OF WICOMICO COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

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. This loan was refinanced in May 2021 with a total principal balance of \$322,000 at a fixed borrowing rate of 4.5% with a maturity date of May 25, 2041. Monthly payments of principal and interest are due in the amount of \$2,038. The mortgage is secured by the Organization's property at 908 West Isabella Street, Salisbury, MD 21801. The balance of this mortgage payable as of June 30, 2021 was \$321,153.

Future minimum principal payments as of June 30, 2021 are as follows:

Year ending June 30,	
2022	\$ 10,208
2023	10,677
2024	11,131
2025	11,679
2026	12,216
Thereafter	265,242
	<u>\$ 321,153</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.

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, 2021 AND 2020

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 38 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, 2021 is 7.23% as provided by Habitat International. The real estate holdings are as follows:

908 W. Isabella Street	Office and location of the ReStore Thrift Shop
714 Grace Street	Vacant lot – future site of affordable housing
716 Grace Street	Vacant lot – future site of affordable housing
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
25518 Elsey Brown Loop	Vacant lot – future site of affordable housing
Lot 18C Christopher Street	Vacant lot – future site of affordable housing
Lot 18B Christopher Street	Vacant lot – future site of affordable housing
309-313 Barclay Street	Vacant lots – future sites of affordable housing

EMERGENCY RENTAL ASSISTANCE PROGRAM

During the year ended June 30, 2021, the Organization partnered with Wicomico County to facilitate the Emergency Rental Assistance Program. This program assisted individuals and families within the community who were negatively affected by COVID-19. Assistance was provided to eligible applicants to prevent evictions from rentals and provide utility assistance. Total expended during the year ended June 30, 2021 was \$681,207 all of which was funded by grants and specific donor contributions. The Organization expects to continue this program through December 31, 2022 or until all available funding is expended.

HABITAT FOR HUMANITY OF WICOMICO COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

AVAILABILITY AND LIQUIDITY

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

	<u>2021</u>	<u>2020</u>
Financial assets at year end:		
Cash	\$ 428,280	\$ 314,316
Accounts receivable	878	1,408
Grants receivable	67,852	95,287
Mortgages and notes receivable	<u>1,315,797</u>	<u>1,153,275</u>
Total financial assets	<u>1,812,807</u>	<u>1,564,286</u>
Less amounts not available to be used for general expenditures:		
Restricted cash for escrow deposits held	52,448	51,099
Net assets with donor restrictions	151,822	152,427
Long-term portion of mortgages and notes receivable	<u>1,132,440</u>	<u>999,996</u>
	<u>1,336,710</u>	<u>1,203,522</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 476,097</u>	<u>\$ 360,764</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 \$278,000). 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 \$54,000 line of credit available to meet cash flow needs when necessary.

FUTURE ACCOUNTING STANDARDS

FASB issued ASU 2020-07, Presentation and Disclosures by Not-for Profit Entities for Contributed Nonfinancial Assets. The new guidance requires a non-for-profit to present contributed nonfinancial assets as a separate line item in the Statement of Activities apart from contributions of cash or other financial assets recognized within the Statement of Activities, disaggregated by category that depicts the type of nonfinancial assets. The new guidance will take effect for the year ending June 30, 2022.

HABITAT FOR HUMANITY OF WICOMICO COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

FUTURE ACCOUNTING STANDARDS (Continued)

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, 2023.

IMPACT OF THE COVID-19 PANDEMIC

In March 2020, the World Health Organization declared the novel coronavirus (COVID-19) outbreak a public health emergency. There were mandates from federal, state, and local authorities requiring forced closures of schools, businesses, and other facilities. The Organization was required to discontinue, reduce, or alter services normally provided. Although most state and local governments have begun to ease restrictions, it is possible that a resurgence in COVID-19 cases could prompt a return to tight restrictions. Therefore, significant uncertainty remains regarding the ongoing impact of the COVID-19 outbreak on the Organization's financial condition. 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 as of June 30, 2020, and a follow up to the plans as of June 30, 2021.

Short-term

1. Ensure safety of staff and customers by ordering masks, additional PPE and stock piling supplies. *Completed.*
2. Install plexiglass barrier at cash wrap and tape floor for social distancing. *Completed.*
3. Fill freezer with donated chicken for staff emergencies. *Completed.*
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. *Cash reserves increased compared to FY2020.*
5. No building improvements unless COVID-19 related. *Emergency repairs needed for the ReStore garage doors in FY2021.*
6. Consider impact to our homeowners and offer a 90-day grace period for mortgage payments from homeowners and no late charges. *Completed.*
7. Communicate no raises for all staff until revenue and outcomes can justify. *Completed, then raises were implemented effective July 1, 2021.*

HABITAT FOR HUMANITY OF WICOMICO COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

IMPACT OF THE COVID-19 PANDEMIC (Continued)

Short-term (Continued)

8. Encourage telework for non-essential staff. *Completed.*
9. Pause volunteer program. *Restarted the program on August 15, 2021.*

Medium-term

1. Join Lower Shore Vulnerable Population Task force to collaborate via zoom with 200 local agencies and businesses serving low income families. *Completed.*
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). *Completed. As of June 30, 2021, \$144,736 was expended.*
3. Pivot fundraising to online event. Virtual Fashion show planned for November 20, 2020. *Completed.*
4. Apply for all emergency grants and the SBA PPP loan. *Completed.*
5. Apply for workforce development grants to extend HabiCorps program into 2021-2022. *Completed, but not approved for additional funding.*
6. Apply for additional AmeriCorps funding to build capacity in affordable building, rehab and repair programs. *Completed and funded for FY2021 and FY2022 by the Rural MD Council.*
7. Rent out 634 E. Church Street and 312 Martin St. to partner families or HabiCorps members (\$650 monthly gross revenue for each property). *Completed. 634 E. Church St. was later sold to a partner family. 312 Martin continues to be a rented.*
8. Expand days/hours of operation at the ReStore to generate more revenue. *Completed. ReStore is now open Monday – Friday from 10:00 A.M. to 4:30 P.M. and Saturday from 9:00 A.M to 4:30 P.M.*

Long-term

1. Determine safe way to bring volunteers back to serve agency. *Completed. Bilingual Spanish/English volunteer now assists in the office with the Emergency Rental Assistance Program.*
2. Evaluate other ways to generate unrestricted funds due to cancelation of Chefs for Habitat gala. *Completed. Expanded Giving Tuesday by incorporating matching donors.*
3. Document succession planning and implement training if key staff leave the organization. *In process.*
4. Convert unsecured line of credit to secured line of credit. *Completed.*
5. Refinance building to reduce interest expense. *Completed.*
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. *Completed a test by partnering with GNI, a local landlord. 323 Penn St., located behind ReStore, was rented so that a close eye could be kept on this test concept.*