

**GREATER FREDERICKSBURG  
HABITAT FOR HUMANITY, INC.**

**FINANCIAL STATEMENTS**

**JUNE 30, 2019**



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ASSURANCE, TAX & ADVISORY SERVICES

**GREATER FREDERICKSBURG HABITAT FOR HUMANITY, INC.**

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## **INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors  
Greater Fredericksburg Habitat for Humanity, Inc.

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Greater Fredericksburg Habitat for Humanity, Inc. (the Organization), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, functional expenses, and cash flows for the year 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 audit. We conducted our audit 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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization'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 Organization'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 Greater Fredericksburg Habitat for Humanity, Inc. as of June 30, 2019 and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

As discussed in Note 8 to the financial statements, the 2018 financial statements have been restated to correct errors in those statements. Our opinion is not modified with respect to this matter.

As discussed in Note 1 to the financial statements, Greater Fredericksburg Habitat for Humanity, Inc. adopted Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, effective July 1, 2018. Our opinion is not modified with respect to this matter.

## **Other Matter**

The financial statements of the Organization, as of and for the year ended June 30, 2018, were audited by other auditors, whose report, dated October 25, 2018, expressed an unmodified opinion on those statements.

*PBMares, LLP*

Fredericksburg, Virginia  
May 5, 2020

## **FINANCIAL STATEMENTS**

# GREATER FREDERICKSBURG HABITAT FOR HUMANITY, INC.

## STATEMENTS OF FINANCIAL POSITION

Years Ended June 30, 2019 and 2018

	2019	(Restated) 2018
<b>ASSETS</b>		
Current Assets		
Cash	\$ 336,809	\$ 216,972
Accounts receivable	4,270	5,230
Grants receivable	55,625	180,000
Mortgage loans receivable - current portion	50,403	86,000
Inventory	41,138	7,630
Land and land engineering costs	227,300	387,379
Construction in progress	293,561	97,412
Property for resale	43,310	43,310
Assets held by others	18,476	18,550
Other current assets	708	708
<b>Total current assets</b>	<b>1,071,600</b>	<b>1,043,191</b>
Property and Equipment		
Leasehold improvements	220,744	220,744
Vehicles	72,992	19,523
Furniture, fixtures, and equipment	38,293	38,293
	<b>332,029</b>	<b>278,560</b>
Less: accumulated depreciation	(110,782)	(79,308)
<b>Total net property and equipment</b>	<b>221,247</b>	<b>199,252</b>
Other Assets		
Mortgage loans receivable, net of current portion less discount	365,493	350,780
Other assets	14,688	15,688
<b>Total other assets</b>	<b>380,181</b>	<b>366,468</b>
<b>Total assets</b>	<b>\$ 1,673,028</b>	<b>\$ 1,608,911</b>
<b>LIABILITIES AND NET ASSETS</b>		
Current Liabilities		
Notes payable - current portion	\$ 198,026	\$ 308,940
Accounts payable	72,443	76,018
Line of credit	-	14,053
Accrued liabilities	23,801	22,416
<b>Total current liabilities</b>	<b>294,270</b>	<b>421,427</b>
Long-Term Liabilities		
Notes payable - less current portion	98,767	85,229
Deferred straight-line rent	77,973	52,677
<b>Total long-term liabilities</b>	<b>176,740</b>	<b>137,906</b>
Net Assets		
Without donor restrictions	1,202,018	1,049,578
With donor restrictions	-	-
<b>Total net assets</b>	<b>1,202,018</b>	<b>1,049,578</b>
<b>Total liabilities and net assets</b>	<b>\$ 1,673,028</b>	<b>\$ 1,608,911</b>

See Notes to Financial Statements.

**GREATER FREDERICKSBURG HABITAT FOR HUMANITY, INC.**

**STATEMENT OF ACTIVITIES**

**Year Ended June 30, 2019**

	2019		
	Net Assets Without Donor Restrictions	Net Assets With Donor Restriction	Total
Revenue, Gains, and Other Support			
Contributions	\$ 96,174	\$ -	\$ 96,174
Endowments and grants	20,087	255,059	275,146
In-kind contributions	42,350	-	42,350
Interest income	676	-	676
Mortgage discount amortization	26,630	-	26,630
Gain from mortgages retired pre-term	3,895	-	3,895
Other income	6,081	-	6,081
Special events	19,348	-	19,348
ReStore sales income	1,010,156	-	1,010,156
Sale of completed homes	107,968	-	107,968
Unrealized loss on investments	(7)	-	(7)
Realized gain on investments	11	-	11
Satisfaction of donor restrictions	255,059	(255,059)	-
<b>Total revenue, gains and other support</b>	<b>1,588,428</b>	<b>-</b>	<b>1,588,428</b>
Expenses			
Program services	1,235,087	-	1,235,087
Management and general	101,376	-	101,376
Fundraising	99,525	-	99,525
<b>Total expenses</b>	<b>1,435,988</b>	<b>-</b>	<b>1,435,988</b>
<b>Change in net assets</b>	<b>152,440</b>	<b>-</b>	<b>152,440</b>
Net Assets, beginning of year, as previously reported	-	-	-
Prior Period Adjustment	-	-	-
Net Assets, beginning of year, as restated	<b>1,049,578</b>	<b>-</b>	<b>1,049,578</b>
Net Assets, end of year	<b>\$ 1,202,018</b>	<b>\$ -</b>	<b>\$ 1,202,018</b>

## GREATER FREDERICKSBURG HABITAT FOR HUMANITY, INC.

### STATEMENT OF ACTIVITIES Year Ended June 30, 2018

	(Restated)		
	2018		
	Net Assets Without Donor Restrictions	Net Assets With Donor Restriction	Total
<hr/>			
Revenue, Gains, and Other Support			
Contributions	\$ 108,080	\$ -	\$ 108,080
Endowments and grants	14,136	169,218	183,354
In-kind contributions	37,560	-	37,560
Interest income	1,152	-	1,152
Mortgage discount amortization	24,434	-	24,434
Gain from mortgages retired pre-term	8,177	-	8,177
Other income	50,591	-	50,591
Special events	29,327	-	29,327
ReStore sales income	975,350	-	975,350
Sale of completed homes	349,928	-	349,928
Unrealized gain on investments	34	-	34
Realized gain on investments	13	-	13
Net assets released from restrictions	-	-	-
Satisfaction of donor restrictions	169,218	(169,218)	-
<b>Total revenue, gains and other support</b>	1,768,000	-	1,768,000
Expenses			
Program services	1,842,593	-	1,842,593
Management and general	101,742	-	101,742
Fundraising	120,080	-	120,080
<b>Total expenses</b>	2,064,415	-	2,064,415
<b>Change in net assets</b>	(296,415)	-	(296,415)
Net Assets, beginning of year, as previously reported	1,824,554	-	1,824,554
Prior Period Adjustment	(478,561)	-	(478,561)
Net Assets, beginning of year, as restated	1,345,993	-	1,345,993
Net Assets, end of year	\$ 1,049,578	\$ -	\$ 1,049,578



**GREATER FREDERICKSBURG HABITAT FOR HUMANITY, INC.**

**STATEMENT OF FUNCTIONAL EXPENSES  
Year Ended June 30, 2019**

	Total Program Services	Supporting Services			Total Expenses June 30, 2019
		Management and General	Fund- Raising	Total Supporting Services	
Advertising and marketing	\$ 1,157	\$ -	\$ -	\$ -	\$ 1,157
Bank and merchant fees	16,090	557	403	960	17,050
Construction	242,930	-	-	-	242,930
Depreciation and amortization	31,474	-	-	-	31,474
Donations and tithes	-	14,000	3,000	17,000	17,000
Dues, subscription, and publications	4,968	798	3,512	4,310	9,278
Facility	281,667	6,568	6,566	13,134	294,801
Food, travel, seminars, and training	6,426	3,500	3,500	7,000	13,426
Fundraising expenses	-	-	5,743	5,743	5,743
General liability insurance	12,380	2,820	2,780	5,600	17,980
Homebuyer service and administrative costs	572	-	-	-	572
Human resource expenses	255	-	-	-	255
Interest expense	-	5,769	-	5,769	5,769
Mdse for resale and uniform expense	396	-	-	-	396
One time expenses	6,715	838	-	838	7,553
Organization and professional fees	11,005	3,424	-	3,424	14,429
Payroll taxes and benefits	88,385	7,232	8,089	15,321	103,706
Postage	311	65	69	134	445
Salaries and benefits expense	494,396	52,629	60,687	113,316	607,712
Supplies and equipment	11,462	901	2,170	3,071	14,533
Taxes and licenses	1,448	2,275	26	2,301	3,749
Transitional property expenses	2,175	-	-	-	2,175
Vehicle expense	20,875	-	2,980	2,980	23,855
	<b>\$ 1,235,087</b>	<b>\$ 101,376</b>	<b>\$ 99,525</b>	<b>\$ 200,901</b>	<b>\$ 1,435,988</b>

**GREATER FREDERICKSBURG HABITAT FOR HUMANITY, INC.**

**STATEMENTS OF CASH FLOWS**  
**Years Ended June 30, 2019 and 2018**

	2019	2018
Cash Flows From Operating Activities		
Change in net assets	\$ 152,440	\$ (322,474)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	31,474	21,350
Mortgage loan discount amortization	(30,525)	(32,611)
Discount on mortgage loans added during the period	-	172,038
Changes in assets and liabilities:		
Decrease (increase) in:		
Accounts receivable	960	6,347
Grants receivable	124,375	(180,000)
Inventory	(33,508)	(1,630)
Mortgage receivable (new mortgages)	-	(284,099)
Assets held by others	74	29
Other assets	1,000	(452)
Land and land engineering costs	160,079	186,211
Construction in progress	(196,149)	45,790
Increase (decrease) in:		
Accounts payable	(3,575)	108
Accrued expenses	1,385	16,849
Deferred straight-line rent	25,296	52,677
<b>Net cash provided by (used in) operating activities</b>	<b>233,326</b>	<b>(319,867)</b>
Cash Flows From Investing Activities		
Purchase of property and equipment	(53,469)	(10,906)
Payments received on mortgage loans receivable	51,409	67,475
<b>Net cash provided by (used in) investing activities</b>	<b>(2,060)</b>	<b>56,569</b>
Cash Flows From Financing Activities		
Proceeds from long-term borrowings	50,000	96,530
Principal payments on long-term borrowings	(147,376)	-
Repayments on line of credit	(14,053)	(43,448)
<b>Net cash provided by (used in) financing activities</b>	<b>(111,429)</b>	<b>53,082</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>119,837</b>	<b>(210,216)</b>
Cash and Cash Equivalents:		
Beginning	216,972	427,188
Ending	\$ 336,809	\$ 216,972
Supplementary Disclosure of Cash Flow Information		
Cash paid for interest	\$ 5,769	\$ 5,434

## GREATER FREDERICKSBURG HABITAT FOR HUMANITY, INC.

### NOTES TO FINANCIAL STATEMENTS

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#### Note 1. Nature of Organization and Significant Accounting Policies

Greater Fredericksburg Habitat for Humanity, Inc. (the Organization) (a nonprofit corporation) was incorporated on October 12, 1994. The Organization is an affiliate of Habitat for Humanity International, Inc. (Habitat International), a nondenominational Christian nonprofit organization whose purpose is to create decent, affordable housing for those in need, and to make decent shelter a matter of conscience with people everywhere. Although Habitat for Humanity International assists with information resources, training, publications, and prayer support and in other ways, the Organization is primarily and directly responsible for its own operations. Greater Fredericksburg Habitat for Humanity, Inc. operates primarily in the city of Fredericksburg, Virginia and the surrounding counties of Spotsylvania, Stafford, and King George.

The Organization operates a Habitat ReStore retail location that sells surplus new and used building and home improvement materials to the general public. ReStore provides additional funding for the Organization as well as inexpensive building materials to the public.

A summary of the Organization's significant accounting policies follows:

***Basis of accounting:*** The Organization prepares its financial statements on the accrual basis of accounting, according to the policies of Habitat International and accounting principles generally accepted in the United States of America (U.S. GAAP). Under the accrual basis of accounting, revenues are recognized when earned, and expenses are recognized when the obligation is incurred.

***Cash and cash equivalents:*** All highly liquid investments with a maturity date of three months or less are considered to be cash equivalents.

***Support and revenue recognition:*** Revenues from the sale of houses are recognized at the date of transfer to the homeowner. Construction costs for each home are capitalized and carried as an asset until the date of transfer of the home, at which time the costs are expensed.

Contributions are generally available for unrestricted use in the year of receipt unless specifically restricted by the donor. Gifts of cash and other assets are reported as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. Support that is restricted by the donor is reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the support is recognized. Classification of all other donor-restricted net assets depends on when the time restriction ends or the purpose restriction is accomplished. Temporarily restricted net assets are reclassified as net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Contributions of donated noncash assets and in-kind contributions are recorded at their estimated fair value on the date of the contribution. The in-kind contributions received by Habitat are primarily construction materials.

Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, of volunteers who have made significant contributions of their time to the Organization's program and supporting services. The value of this contributed time is not reflected in these financial statements because the criteria for recognition has not been satisfied.

## GREATER FREDERICKSBURG HABITAT FOR HUMANITY, INC.

### NOTES TO FINANCIAL STATEMENTS

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#### Note 1. Nature of Organization and Significant Accounting Policies (Continued)

New home construction sales to homeowners are financed by the Organization and are recorded when the title is transferred. Neighborhood Stabilization Program (NSP) home sales are financed by a variety of sources including the Organization, the Virginia Department of Housing and Community Development (DHCD), and other grant sources as directed by the NSP program. Upon a sale of NSP program homes, the Organization is required to return a percentage of program receipts to the NSP program. The Organization estimates this liability/refund and reports such as an outstanding obligation. The value of the first mortgage on the home is reported as revenue with the corresponding sales price discount and mortgage loan discount reported as operating expenses.

**Net assets:** Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

*Net assets without donor restrictions* – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

*Net assets with donor restrictions* – Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

**Mortgages receivable:** Mortgages receivable consist of non-interest bearing mortgages secured by real estate and payable in monthly installments. The maturities of the mortgages range from 15 to 30 years. These mortgages have been discounted at prevailing rates for similar mortgages. The mortgage discount rates range from 7.5% to 9.0%; for the years ended June 30, 2019 and 2018, mortgage discount rates were 7.7% and 7.6%, respectively, as determined by Habitat International.

Receivables are stated at the amount management expects to collect as of year-end. Management estimates that no material losses will be sustained relating to the collectability of mortgages. As such, no allowance for loan losses or adjustments to the balance of mortgages receivable has been recorded, based on current facts and circumstances.

**Grants and Accounts receivable:** Grants and accounts receivable are considered to be fully collectible and accordingly no allowance for doubtful accounts is required. If amounts become uncollectible, they are charged to operations when that determination is made. Bad debt expense for the years ended June 30, 2019 and 2018 was \$-0- and \$4,077, respectively.

**Inventory:** ReStore inventory items are primarily donated by the public; the Organization's policy is not to recognize the value of these donated inventory items, as there is a major uncertainty about the reliability of their values. The value of these items is not reasonably determined until they are sold.

# GREATER FREDERICKSBURG HABITAT FOR HUMANITY, INC.

## NOTES TO FINANCIAL STATEMENTS

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### Note 1. Nature of Organization and Significant Accounting Policies (Continued)

**Property and equipment:** Property and equipment are recorded at cost. Depreciation is computed using the straight-line method over the following estimated useful lives:

Leasehold improvements	20 years
Vehicles	5 years
Furniture and fixtures	3 – 7 years

**Functional allocation of expenses:** The costs of providing the Organization's programs and support services have been summarized on a functional basis in the statement of activities and functional expenses. Directly identifiable expenses are allocated to program services, management and general, or fundraising. Expenses related to more than one function are charged to program services, management and general, and fundraising classifications based on estimates made by management. Allocations are based on departmental staffing levels and other methodologies. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

Program services include construction and discounts on mortgage originations as well as providing affordable home furnishings and home improvement materials in the ReStore. The cost of home building is capitalized as construction in progress and charged to program services when the house is sold. Program services include the cost of all homes completed and sold during the fiscal year and expenses related to the operation of the ReStore.

**Income taxes:** The Organization is generally exempt from federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code (IRC). Unrelated business income that is not related to exempt purposes, less applicable deductions, is subject to federal and state corporate income taxes.

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 740, *Income Taxes*, prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Organization's management has evaluated the impact of this guidance to its financial statements. The Organization's income tax returns are subject to examination by taxing authorities, generally for a period of three years from the date the returns are filed.

**Estimates and assumptions:** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Adopted accounting pronouncements:** In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which simplifies and improves how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. The Organization has implemented ASU 2016-14 and has adjusted the presentation in these financial statements accordingly.

## GREATER FREDERICKSBURG HABITAT FOR HUMANITY, INC.

### NOTES TO FINANCIAL STATEMENTS

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#### Note 1. Nature of Organization and Significant Accounting Policies (Continued)

**Recent accounting pronouncements:** In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14 which defers the effective date of ASU 2014-09 one year making it effective for annual reporting periods beginning after December 15, 2018. The Organization has not yet selected a transition method and is currently evaluating the effect that the standard will have on the financial statements.

In June 2018, the FASB issued ASU 2018-08, Not-for-Profit Entities (Topic 958): *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*, which is intended to clarify and improve current guidance about whether a transfer of assets is an exchange transaction or a contribution. The amendments in this ASU provide a more robust framework to determine when a transaction would be accounted for as a contribution under Subtopic 958-605 or as an exchange transaction accounted for under other guidance (for example, Topic 606).

The amendments also provide additional guidance about how to determine whether a contribution is conditional or unconditional. The amendments in this ASU could result in more grants and contracts being accounted for as contributions than under previous U.S. GAAP. The ASU recommends application on a modified prospective basis; however, retrospective application is permitted. The Organization has not yet decided on a transition method. The ASU is effective for years beginning after December 15, 2018.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Organization is currently evaluating the impact of their pending adoption of the new standard on its financial statements.

**Subsequent events:** Subsequent events have been evaluated through May 5, 2020, which was the date the financial statements were available to be issued. Management determined that the information described in Note 10 meets the criteria for disclosure as a subsequent event.

**Reclassifications:** Certain amounts in the December 31, 2018 financial statements have been reclassified to conform to the current year presentation. These reclassifications had no impact on net assets or changes in net assets for the year ended December 31, 2018.

## GREATER FREDERICKSBURG HABITAT FOR HUMANITY, INC.

### NOTES TO FINANCIAL STATEMENTS

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#### Note 2. Liquidity

The following reflects the Organization's financial assets at June 30, 2019, reduced by amounts that are not available for general use because of donor-imposed restrictions within one year of the statement of financial date.

Cash	\$	336,809
Accounts receivable		4,270
Grants receivable		55,625
Mortgage loans receivable - current portion		50,403
Assets held by others		18,476
Other current assets		708
		<hr/>
<b>Financial assets available to meet cash needs for general expenditures within one year</b>	<b>\$</b>	<b>466,291</b>
		<hr/> <hr/>

Current assets available for expenditure within one year consist mainly of cash. The Organization relies on grants and contributions throughout the year to fund its operations. In addition to relying on grants and contributions, the Organization also uses debt financing to fund its program expenses.

#### Note 3. Transactions with Related Parties

The Organization annually remits a portion of its contributions to Habitat International. These funds are used to construct homes in economically depressed areas around the world. For the years ended June 30, 2019 and 2018, the Organization contributed \$17,000 and \$21,500, respectively, to Habitat International. Such amounts are included in donation expense in the statement of functional expenses. In addition to yearly tithes, Habitat International incurs and pays expenses on the Organization's behalf throughout the normal course of business. The Organization remitted payments of \$5,359 and \$1,347 for the years ended June 30, 2019 and 2018, respectively. Amounts payable to Habitat International were \$15,000 for both of the years ended June 30, 2019 and 2018, respectively. These outstanding balances represent annual dues payable to Habitat International for the following year. The Organization received a donation of \$1,000 from Habitat International during the year ended June 30, 2019. The Organization also received a conditional promise to give from Habitat for Humanity International that will not be recognized until such time as the condition has been met (See Note 7).

The Organization and Habitat Virginia reimburse one another for small expenditures they incur and pay on the other entity's behalf throughout the normal course of operations. The Organization remitted payments to Habitat Virginia of \$110,757 and \$22,000 for the years ended June 30, 2019 and 2018, respectively. Payments received from Habitat Virginia were \$0- and \$99,791 for the years ended June 30, 2019 and 2018.

## GREATER FREDERICKSBURG HABITAT FOR HUMANITY, INC.

### NOTES TO FINANCIAL STATEMENTS

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#### Note 4. Mortgage Loans Receivable

When the Organization transfers ownership of a home to a family, multiple mortgages are created. The terms of the first mortgage vary depending on the amount of the mortgage and the family's ability to pay. First mortgages are interest free and have terms ranging from 15 to 30 years. Monthly payments range from \$141 to \$493. The Organization does not record an allowance for bad debts for these mortgages because each mortgage is fully secured by collateral.

First mortgages are valued in the financial statements net of a discount. The discount is computed using the rate established by Habitat International at the time of the mortgage origination. Habitat International sets the rates by averaging the monthly discount rates published by the IRS for buildings placed into service for that year. The discount is amortized over the life of the mortgage.

Non-interest bearing mortgage loans receivable consisted of the following at June 30:

	<b>2019</b>	Restated 2018
Mortgages receivable	\$ 977,300	\$ 1,028,709
Discount	<b>(561,404)</b>	(591,929)
	<b>\$ 415,896</b>	\$ 436,780

The above referenced mortgage loans receivable have scheduled maturities as follows

Years Ending June 30,	Amount
2020	\$ 50,403
2021	47,139
2022	47,139
2023	47,139
2024	44,640
Thereafter	740,840
	<b>\$ 977,300</b>

In connection with each mortgage, there is an agreement with the Organization to perfect a second deed of trust. In the event of default on the first mortgage or sale of real estate, the other mortgage becomes due on demand. The second deed of trust is forgiven by the Organization using the straight-line method over the life of the loan. These mortgages are not recorded in the financial statements because collection is uncertain and no estimate is available for future payments. If the homeowner transfers, sells, or assigns their title or interest in the property, the second mortgage becomes due on demand and the Organization records a gain equal to the balance determined to be reasonably assured of collection. Realized gains on second mortgages were \$-0- for the years ended June 30, 2019 and 2018, respectively.



## GREATER FREDERICKSBURG HABITAT FOR HUMANITY, INC.

### NOTES TO FINANCIAL STATEMENTS

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#### Note 5. Long-Term Liabilities

Long-term liabilities consist of the following at June 30:

	2019	2018
Note payable to the Neighborhood Stabilization Program for a house to be rehabilitated, bearing no interest, due at the time the home is sold to an individual or family, secured by one property located at Taverneer Drive, Spotsylvania, Virginia.	\$ 175,000	\$ 175,000
Note payable to the Neighborhood Stabilization Program for a house to be rehabilitated, bearing no interest, due at the time the home is sold to an individual or family, secured by one property located at N. Shade Tree Lane, Spotsylvania, Virginia.	-	113,850
Five notes payable to Virginia Housing Development Authority, bearing interest at 3%, due in monthly installments ranging from \$173 to \$408, with maturities ranging from February 2020 to January 2027, collateralized by mortgage receivables that have been pledged by the Organization.	79,377	105,319
Note payable to BB&T, bearing interest at 5.94%, due in monthly installments of \$967, beginning September 2018, maturing September 2023, collateralized by a vehicle.	42,416	-
	296,793	394,169
Portion due within one year	198,026	308,940
Long-term debt, net of current portion	\$ 98,767	\$ 85,229

Aggregate maturities on the notes payable for the next five years are as follows:

Years Ending June 30,	Amount
2020	\$ 198,026
2021	22,424
2022	23,398
2023	22,336
2024	10,426
Thereafter	20,183
	\$ 296,793

## GREATER FREDERICKSBURG HABITAT FOR HUMANITY, INC.

### NOTES TO FINANCIAL STATEMENTS

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#### Note 6. Net Assets with Donor Restrictions

Net assets were received and released from donor restrictions, through satisfaction of the following purpose restrictions, during the years ended June 30, 2019 and 2018 as follows:

	<u>2019</u>	<u>2018</u>
Net assets received and released with donor restrictions		
Construction or rehabilitation of home	\$ 166,125	\$ 103,718
NSP grants for home purchases	88,934	65,500
	<u>\$ 255,059</u>	<u>\$ 169,218</u>

#### Note 7. Conditional Promises to Give

The Organization received the following conditional promise to give that is not recognized as an asset in the statements of financial position as of June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Grant agreement for the Habitat and Thrivent Faith Builds 2019 project for construction or rehabilitation of 1 sponsored house; conditioned upon obtaining a certificate of occupancy and timely submission of certain deliverables.	\$ 55,625	\$ -
	<u>\$ 55,625</u>	<u>\$ -</u>

The above described grant, awarded in 2019, provides a maximum amount of \$55,625 if conditions are met.

#### Note 8. Operating Lease Commitment

Effective November 1, 2016, the Organization relocated its office to 2376 Plank Road and the retail store to 2378 Plank Road, Fredericksburg, Virginia. The Organization leases its office facilities from Cosner Corner South, LLC and the ReStore from Poor House, LLC. The lease terms for the new locations are five (5) years and the Organization has four (4) options to extend the term for an additional five (5) years each. The base rent payments are \$3,800 per month for the office space and \$10,200 per month for the retail store, with 2% annual increases.

In April 2017, the Organization rented additional warehouse space for \$1,700 per month, with 2% annual increases. The Organization is also responsible for real estate taxes, insurance and common area maintenance which will be billed separately by the landlord.

## GREATER FREDERICKSBURG HABITAT FOR HUMANITY, INC.

### NOTES TO FINANCIAL STATEMENTS

#### Note 8. Operating Lease Commitment (Continued)

The minimum required lease payments for the office space and retail store are as follows:

Years Ending June 30,	Amount
2020	\$ 191,193
2021	193,458
2022	197,328
2023	201,274
2024	205,300
Thereafter	2,479,625
	<u>\$ 3,468,178</u>

#### Note 9. Restatement

The financial statements for the year ended June 30, 2018 were restated to record the discount on mortgages with interest below the market rate, to record the accumulated deferred rent liability resulting from recording rent expense on a straight-line basis, as well as to record accrued paid time off for employees.

The impact of the restatement is as follows:

	Previously Stated Balance	Restatement Adjustments	Balance as Restated
<b>Statement of Financial Position</b>			
Mortgage loans receivable, net of current portion less discount	\$ 942,709	\$ (591,929)	\$ 350,780
Accrued liabilities	14,641	7,775	22,416
Deferred straight-line rent	-	52,677	52,677
<b>Statement of Activities</b>			
Mortgage discount amortization	-	24,434	24,434
Gain (loss) from mortgages retired pre-term	-	8,177	8,177
Discount on mortgages issued	-	172,038	172,038
Payroll taxes and benefits	85,137	7,775	92,912
Rent expense	221,051	26,618	247,669
<b>Net Assets as of June 30, 2017</b>	1,824,554	(478,561)	1,345,993
<b>Net Assets as of June 30, 2018</b>	1,701,959	(652,381)	1,049,578
<b>Decrease in Net Assets, year ended June 30, 2018</b>	(122,595)	(173,820)	(296,415)

## **GREATER FREDERICKSBURG HABITAT FOR HUMANITY, INC.**

### **NOTES TO FINANCIAL STATEMENTS**

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#### **Note 10. Subsequent Events**

In the first quarter of 2020, a Coronavirus Disease 2019 (COVID-19) outbreak affected markets, businesses and other organizations worldwide. Negative impacts include record declines in financial markets, supply chain disruption and other business interruptions, resulting in financial losses to many businesses and not-for-profit entities. The extent to which this event may affect operations and financial position going forward remains uncertain.

On April 13, 2020, as part of the Coronavirus Aid, Relief, and Economic Security (CARES) Act the Organization received a Payroll Protection Program (PPP) loan in the amount of \$155,000. The loan carries an interest rate of one (1%) percent and matures on April 13, 2022. The Company will make 18 payments of \$8,724.50 beginning November 10, 2020. If, during the eight weeks following receipt of the funds, the Company spends the money on expenses specified in the CARES Act, all or a portion of the loan may be forgiven.